12/11/84 U1120-1 A

VIRGINIA BUSINESS REPORT

Note: There will be no December issue.

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA
Report No. 294 **November, 1984**

Business in Virginia, October, 1984 Data

Eleven issues of this Report *are published annually. Our policy this year was to publish issues in January through November, including for the first time a July issue. There will be no December issue, so the next* Report *will be the January, 1985 review of the past year. In the meantime, we hope all of our readers enjoy a Merry Christmas and a Happy New Year.*

Virginia's economic indicators clearly are showing the signs of renewed higher growth in consumer spending. After the slow pace in July and August, Virginia's general taxable sales rose by 17.3 percent in September 1984 compared to last September. Our more limited retail sales sample indicates the upturn in growth continued in October: the sample showed an increase of 9.9 percent in October, up 2.7 percentage points from the 7.2 percent rise in September. Durable goods demand in October also accelerated, with new car registrations up 21.9 percent over a year ago, compared to a 17.7 percent gain in September. Virginia consumers in nearly all parts of the Commonwealth are buying at higher rates, rates which are more in line with the continued recent growth in their personal income. Therefore the outlook is for Christmas retail sales to be strong, with a double-digit increase likely over the record sales levels of last December.

Chart I
Nine Selected Business & Economic Indicators Percentage Change

Percentage Change October, 1984 from October, 1983

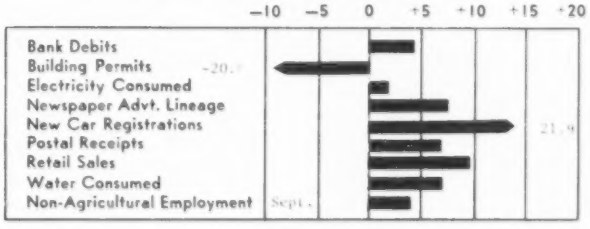
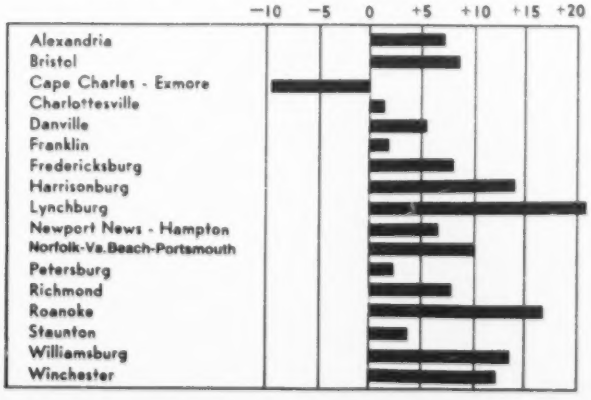


Chart II
City Indices

Percentage Change October, 1984 from October, 1983



The employment developments also have been encouraging. In September, nonagricultural employment Statewide was 4.1 percent above a year ago. By comparison, the national increase from September 1983 to September 1984 was a much lower 1.2 percent. We also have just received the Virginia Employment Commission's October employment release, which showed only a slightly lower gain of 3.9 percent compared to October of 1983. Thus Virginia's employment growth has held up very well through the third quarter of 1984, far better than the national performance. November, and especially December, are likely to show slower growth, as the continued rise in retail trade and services employment is partially offset by declining employment in many of Virginia's manufacturing industries. Temporary layoffs in manufacturing industries in many parts of the State will dampen the holidays for a sizable number of Virginians. So, our general good economic health will not be shared by all as the year ends. However, the outlook for the spring, as discussed in more detail in our second article, is for continued strength in consumer demand nationally to lead to a resurgence in factory orders. Hopefully by February these new orders will lead to higher growth in Virginia's manufacturing employment, giving us renewed employment growth generally throughout the Commonwealth.

Building permit activity did decline in October, pointing to a year-end pause in the level of construction in many cities around the State. And, even with the recent fall in interest rates, building permits in the spring are not likely to match the exceptional levels of early 1984. However, this industry should regain some strength in the first quarter, adding to the gains expected in retail businesses and manufacturing. Virginia still is demonstrating above-average economic vitality, and should begin the new year with a first quarter which shows more vigor than the fourth quarter of 1984.

RLP

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Roy L. Pearson, *Acting Director*

SELECTED BUSINESS AND ECONOMIC INDICATORS FOR 17 CITIES

TABLE I October, 1984

Monthly Index Number Comparisons of Current Month to Same Month in Base Period (1977) - Base Period = 100

CITY	CITY INDEX*	BANK DEBITS*	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	POSTAL RECEIPTS
The State		268.1	146.3	110.1	105.7	217.8	121.7	92.7	153.9	279.1
Alexandria	143.9	232.0	111.2	107.9	N.A.	105.2	394.6	97.3	154.9	N.A.
Bristol	124.8	31.8	153.5	81.1	74.0	80.4	102.6	98.6	152.6	299.5
Cape Charles - Exmore	103.4	62.8	170.6	100.3	N.A.	64.2	N.A.	N.A.	103.6	186.0
Charlottesville	195.3	376.9	129.6	108.8	N.A.	102.0	99.2	119.2	193.8	274.2
Danville	140.0	N.A.	95.8	114.3	129.0	90.2	101.7	91.0	161.6	210.7
Franklin	120.5	N.A.	60.7	100.5	124.0	67.2	N.A.	102.0	123.4	200.2
Fredericksburg	166.6	181.4	235.7	N.A.	152.0	131.5	N.A.	62.8	152.7	346.9
Harrisonburg	139.8	49.8	379.3	N.A.	135.3	86.6	N.A.	131.5	154.5	251.5
Lynchburg	211.9	287.5	152.9	105.5	N.A.	100.5	99.2	124.2	160.2	596.8
Newport News - Hampton	127.7	195.5	239.8	95.0	81.8	84.6	66.3	120.6	148.1	N.A.
Norfolk - Va. Beach - Portsmouth	169.6	361.8	190.4	119.7	97.0	91.1	87.1	72.4	204.8	N.A.
Petersburg	101.2	2.1	101.7	N.A.	47.3	63.7	98.6	94.0	136.0	194.4
Richmond	152.4	240.0	89.4	126.3	122.6	94.0	117.2	120.6	140.2	247.1
Roanoke	175.7	430.6	235.9	88.7	155.7	73.2	109.3	96.1	159.8	257.7
Staunton	123.5	127.4	85.0	N.A.	82.7	88.2	N.A.	N.A.	116.8	215.9
Williamsburg	149.6	174.0	137.4	141.7	N.A.	102.5	N.A.	104.8	121.8	308.3
Winchester	161.5	266.9	83.5	118.6	195.3	104.7	N.A.	145.9	124.1	250.0

TABLE II October, 1984

Percentage Change from same month last year

CITY	CITY INDEX*	BANK DEBITS*	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	SEPT. NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	SEPT. RETAIL SALES ‡
The State		4.1	-20.6	1.7	7.5	21.9	4.1	7.0	9.9	17.3
Alexandria	7.1	17.0	-86.1	-2.1	N.A.	16.0	5.9	6.0	7.6	23.9
Bristol	8.4	-12.2	-46.9	0.7	-2.2	6.3	5.2	10.1	14.7	23.3
Cape Charles - Exmore	-9.7	-9.8	-13.6	0.4	N.A.	-3.7	N.A.	N.A.	-15.0	-2.6
Charlottesville	1.2	33.6	-31.0	3.9	N.A.	0.6	0.3	1.1	0.6	15.5
Danville	5.2	N.A.	19.0	3.4	20.0	12.2	-0.2	4.4	-1.2	9.6
Franklin	1.9	N.A.	126.2	0.3	2.6	-16.3	N.A.	-8.1	11.6	20.9
Fredericksburg	7.8	-57.2	210.2	N.A.	12.5	17.0	N.A.	10.1	2.4	49.5
Harrisonburg	13.4	69.7	143.9	N.A.	14.7	64.3	N.A.	-5.3	2.2	3.8
Lynchburg	20.8	2.4	-49.7	1.9	N.A.	33.9	2.3	1.2	29.2	26.4
Newport News - Hampton	6.5	8.4	-3.4	0.4	0.4	19.2	6.4	5.4	6.8	15.4
Norfolk - Va. Beach - Portsmouth	10.0	-0.4	2.7	5.5	15.8	15.9	5.4	2.4	10.2	13.6
Petersburg	2.2	25.9	581.0	N.A.	-19.7	3.8	-0.5	-5.5	11.5	13.1
Richmond	7.6	4.5	-78.3	3.0	2.6	-1.5	2.2	20.5	9.5	15.8
Roanoke	16.8	5.1	536.3	2.9	9.7	30.2	3.9	-3.9	26.2	29.0
Staunton	3.5	55.6	43.0	N.A.	-0.3	48.0	N.A.	N.A.	-10.0	6.8
Williamsburg	13.7	101.4	22.8	5.6	N.A.	57.1	N.A.	9.6	3.2	3.1
Winchester	12.2	29.1	-28.0	5.0	6.7	33.1	N.A.	29.0	3.8	12.2

TABLE III

Percentage Change January - October from same period last year

CITY	CITY INDEX *	BANK DEBITS*	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	JAN.-SEPT. NON AGRI-CULTURAL EMPLOYMENT #	WATER CONSUMED	RETAIL SALES †	JAN.-SEPT. RETAIL SALES‡
The State		1.8	15.9	5.1	11.5	18.4	4.2	2.0	8.8	19.7
Alexandria	9.0	25.1	-6.8	1.1	N.A.	14.7	5.5	2.1	12.0	24.7
Bristol	16.0	-3.8	42.6	6.8	-1.0	22.4	4.0	16.3	22.6	17.6
Cape Charles - Exmore	0.2	39.1	59.9	-3.1	N.A.	26.3	N.A.	N.A.	-7.4	13.5
Charlottesville	2.4	26.0	88.7	6.8	N.A.	12.9	1.5	-3.3	-0.7	20.4
Danville	6.5	N.A.	76.4	2.5	14.4	14.5	1.4	2.4	4.0	16.1
Franklin	6.2	N.A.	-28.9	3.0	4.6	24.9	N.A.	-9.0	6.6	18.8
Fredericksburg	11.4	-15.1	16.9	N.A.	8.6	32.6	N.A.	0.6	8.9	41.2
Harrisonburg	9.1	46.2	68.9	N.A.	11.2	15.8	N.A.	2.1	8.5	22.6
Lynchburg	13.3	-19.4	-21.6	4.2	N.A.	17.9	3.4	4.2	17.8	20.9
Newport News - Hampton	6.2	7.8	45.6	4.9	12.4	21.2	5.2	-1.4	2.2	15.1
Norfolk - Va. Beach - Portsmouth	10.1	-1.0	11.7	7.0	13.8	18.3	5.0	5.2	8.7	18.5
Petersburg	1.5	-6.8	3277.9	N.A.	-8.8	14.0	-1.7	-7.5	3.7	13.1
Richmond	9.5	2.2	-8.9	9.5	12.3	24.5	2.6	1.4	6.2	17.6
Roanoke	13.1	3.1	33.4	7.6	13.1	19.8	3.4	0.2	17.1	21.2
Staunton	5.3	33.7	14.1	N.A.	3.2	25.8	N.A.	N.A.	-0.8	7.9
Williamsburg	7.0	32.2	63.4	6.2	N.A.	20.4	N.A.	8.6	2.3	14.3
Winchester	9.3	15.0	-9.1	9.4	16.6	18.8	N.A.	11.3	3.1	29.9

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits and Bank Debits, which are excluded because of their highly erratic nature.
#Virginia Employment Commission data which lags behind current reports.
†Preliminary data based on a survey sample.
‡Revised data based on sales tax information which lags behind current reports.

N.A. - Not Available
0.0 - No Change

Table IV

Annual Rates of Change, Selected Periods

	Annual Rate of Change, 1982:4 Through 1984:2	Annual Rate of Change, 1984:3
Nation		
Real Gross National Product (1972$)	7.1%	1.9%
Inflation (GNP Implicit Price Deflator)	3.8	3.7
Current Dollar Gross National Product	11.2	5.6
Federal Government Spending	4.0	14.3
Gross Private Domestic Investment	40.6	23.1
Personal Consumption Expenditures	9.1	4.6
Personal Income	8.6	8.7
Nonagricultural Employment, Seasonally Adj.	3.7	3.1
Manufacturing Employment	4.7	2.0
Nonmanufacturing Employment	3.4	3.4
Virginia		
Personal Income	9.6%	N.A.
Nonagricultural Employment, Seasonally Adj.	5.0	N.A.
Manufacturing Employment	3.4	N.A.
Nonmanufacturing Employment	5.4	N.A.

The Expansion, Retrospect and Prospect

The second anniversary of the current economic expansion is an appropriate time to review our past performance and look ahead to 1985. Table IV provides the annual rates of change for selected national and Virginia economic series, from the trough of the recession in the fourth quarter of 1982 (1982:4) through the second quarter of 1984 (1984:2). During that period we achieved very high growth. Then, as all of you are aware, the nation's growth slowed dramatically in the third quarter of 1984. Therefore for comparison, the 1984:3 annual rates of change are shown in a separate column in the table. What happened, and what will happen next? We will consider the national situation first, and then turn to Virginia.

The Nation

For the first six quarters of the expansion, the nation's real Gross National Product (GNP), our physical output of goods and services, grew at an annual rate of 7.1 percent. That is the highest real growth since the early 1950's, and a rate of growth we could not sustain much longer without overheating. A slowdown was expected, but in the third quarter the annual rate of growth fell to only 1.9 percent in real terms. Why such a dramatic slowdown? The growth rates in Table IV offer a perspective. Federal government spending was not the answer. For six quarters it had grown at an annual rate of only 4.0 percent in current dollars, only slightly more than the inflation rate. Its growth began accelerating this year, and in the third quarter of 1984 Federal spending was growing at a 14.3 percent annual rate. Looking elsewhere, rising interest rates in the spring and summer did slow substantially the growth of Gross Private Domestic Investment, especially the residential housing component. But, overall private investment still grew at an annual rate of 23.1 percent in the third quarter, a very high rate.

The real source of the dramatic slowdown in the third quarter was the slower growth in consumer spending. During the first six quarters of the expansion, personal consumption expenditures grew at an annual rate of 9.1 percent. That rate was higher than the 8.6 percent annual growth in personal income. Consumers could not continue indefinitely to increase their spending more rapidly than their income was growing, so a lower rate of consumption was expected soon. The big question was when, and by how much, would consumption slow down? In the third quarter we got the answer. Consumer spending grew by only 4.6 percent. The drop from 9.1 percent growth to 4.6 percent may not seem so large, but remember that consumption accounts for 65 percent of the nation's total demand. Therefore, even small changes in consumption growth have a large impact on total demand. Plus, the third quarter growth of only 4.6 percent was just slightly higher than the inflation rate, so in real terms consumer demand became flat. That caused businesses to quickly cut back their orders for consumer goods, and industrial production also has levelled off in recent months. The slower growth which resulted also reduced the demand for money, pushing down the money supply growth and interest rates.

With that background, what is the outlook for the first half of 1985? That depends primarily on two factors: what will consumers do, and what will the Federal Reserve System's monetary policy be? Government spending still is growing, and moderate growth in private investment spending can be expected if the consumer spending growth rebounds and adequate money is available to meet total demand without pushing up interest rates.

Turning first to consumers, Table IV shows their personal income continued to grow at a high annual rate, 8.7 percent, in the third quarter. Therefore income still is growing at a rate which will enable consumer spending to accelerate. Will it? An intangible which implies the answer is yes is consumer confidence about the future. Consumer confidence remains at the highest levels since 1966, and actually rose in October. Their confidence has not been shaken by the recent slowdown, the doubts of economists and financial analysts, or the rhetoric of the recent political campaigns. Therefore consumers have the income, credit capacity, and the confidence to want to buy in the future. Our view is the third quarter slowdown in consumer spending was just a temporary and overdue pause. For December and the first half of 1985, consumer spending growth should increase to at least an eight percent annual rate, about twice the third quarter rate.

That consumer rebound will be the key to first half growth in 1985. Business inventories are *not* excessive, in spite of an unplanned increase in the third quarter. Private business inventories as a percent of monthly sales still are at their lowest levels since 1973. Therefore increased growth in consumer spending very quickly will lead to new orders for consumer goods, causing the nation's real output to grow more rapidly by the middle of the first quarter of 1985.

The other necessary ingredient for a national rebound in the first half of 1985 is a more accomodating monetary policy. Not a flood of money. But, sufficient monetary growth for the public to carry out its spending plans without pushing up interest rates. The Federal Reserve System recently has given every indication that it wants to meet this need. We believe the Federal Reserve System will achieve its goal of a higher, more stimulative rate of monetary growth in the coming months, enabling interest rates to continue to decline modestly even as spending rebounds.

In sum, the prospects are that consumer, investment, and government demand will be higher in the first half of 1985. The nation not only will have the demand, but also the production capacity and monetary growth to achieve an annual real growth rate of 4 percent in the first half of 1985. And, inflation also can be expected to remain in the 4 percent annual range. Thus we expect a very satisfactory first half performance.

What about the second half of 1985? That depends more on the President and Congress than on the private sector. The private sector has been running uphill with two burdensome weights — the Federal deficit and the trade deficit. We handled these weights very well in the first six quarters of the expansion. But, as we climb higher, the weights are growing. The Federal deficit in fiscal year 1984 was $175 billion, and it now is expected to be over $200 billion for 1985. Similarly, our net merchandise trade balance so far in 1984 has been running at a deficit of $113.2 billion at an annual rate, and could go higher in early 1985.

All of you have heard throughout the past two years why the Federal deficit is a long-run problem which requires action. However, the deficit for fiscal year 1986 is a *short-run* problem, too. Without some clear action by the President and Congress by the summer of 1985, the uncertainty and more pessimistic outlook generated are likely to produce a drop in consumer and business confidence, bringing the expansion to a halt. *Clear* action to reduce the deficit does not have to be *massive* action. In fact, it *cannot* be massive — a Federal policy swing of over $200 billion in the tax and spending mix in one year *also* would bring the expansion to a halt. What we expect, and hope for, are changes which will reduce the deficit by up to $50 billion in fiscal year 1986. Exactly what those changes will be no one knows. Tax reform is the issue which holds the headlines right now. Tax reform is desirable, and even a revenue-neutral version could provide some improvement in fiscal year 1986. But, that issue must not be allowed to obscure the need for, and action on, a deficit reduction program. Here, some compromises will be necessary, to achieve the needed deficit reductions. And, these compromises are likely to include some increases in business taxes, if not individual income taxes. The *sooner* something is done, so the public *knows* what lies ahead, the better chance we have of extending the recovery through the second half of 1985 and into 1986.

The trade deficit is another problem which is slowing U.S. real growth, as it siphons off demand for domestically produced goods. As our growth slows, so will the trade deficit. But to increase the percent of income spent domestically, the value of the dollar must decline. The strong value of the dollar which has encouraged the very high growth of imports probably has peaked. Our lower real growth, with modest easing of interest rates, should produce a moderate decline in the value of the dollar in 1985.

The Federal deficit action, monetary policy, and a lowered value of the dollar all are interrelated. A lower dollar value requires more domestic saving and money growth. That saving must partly be produced by the Federal government through some deficit reduction. The deficit reduction also is necessary to give the Federal Reserve System sufficient room to maneuver in the second half of 1985 in providing adequate monetary growth. So, Congressional action to achieve a deficit reduction program by mid-1985 is crucial to avoiding higher interest rates and near zero real growth in the second half of 1985.

We remain optimistic that Congress will take appropriate action. If so, real growth at an annual rate of approximately 3 percent in the nation's output is likely in the second half of 1985. That performance not only will yield year-over-year real growth of about 4 percent, but it also will give the nation the opportunity to continue the expansion into 1986.

Virginia

Let us turn briefly to the outlook for Virginia. In 1985, the Commonwealth will grow at a higher rate than the nation. For some reasons why, please take another look at Table IV and compare Virginia's performance to the nation's during the present expansion. We were in better shape economically than the nation in the fourth quarter of 1982, and yet during the first six quarters of expansion we outgrew the nation by nearly every measure.

Personal income is a major example. The annual rate of increases for the nation was 8.6 percent, but Virginia's personal income grew at a 9.6 percent annual rate. That is not an unusual result. Virginia has a history of more stable growth than the nation. But, it also has a history of more *rapid* growth than the nation, both in the recent past and over the longer term going back at least to 1968. When the nation's personal income rises, our personal income tends to rise even more rapidly. The growth in nonagricultural employment during the expansion shows the same pattern. Seasonally adjusted, Virginia's employment grew at a 5.0 percent annual rate, compared to the national rate of 3.7 percent.

The strength behind our growth is shown by examining the employment growth by type, in Table IV. Nonmanufacturing employment in Virginia accounts for 82 percent of the State's employment; and the Commonwealth achieved a seasonally adjusted annual rate of growth of 5.4 percent in nonmanufacturing employment. The national growth rate was only 3.4 percent. Therefore the State's primary strength in the expansion has been in the monmanufacturing sectors, predominantly wholesale and retail trade and services.

For 1985, the national outlook is for trade and service employment to grow considerably more rapidly than manufacturing employment. That is the result of slower growth in business equipment purchases and consumer durable goods demand, with more growth centered in consumer demand for nondurable goods and services. Virginia can be expected to follow that pattern, too, with continued substantial growth in the trade and services sectors. In manufacturing, Virginia's employment growth should at least match the national growth, particularly in the second half of 1985, because of our industrial mix.

Pulling together all of these factors, our prediction is Virginia personal income will grow in the 10 percent range in 1985, with nonagricultural employment growth of about 2.5 percent. Those results will mean one more year in which we outperform the nation.

RLP

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VIRGINIA BUSINESS REPORT

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 295 January 1985

A Special Thank You

Our ability to report on current Virginia business indicators rests solely on the cooperation of the over two hundred private and public organizations that provide us, at their own expense, with data each month. We at the Bureau of Business Research wish to say Thank You to our many contributors for this public service they perform so conscientiously.

1984 in Perspective

The Commonwealth achieved the very healthy economic expansion expected in 1984. The dominant feature of this expansion was the growth in employment. During the first eleven months of 1984 (latest data available at press time), nonagricultural employment grew by 4.1 percent, compared to the same period in 1983. That was the largest growth in employment since 1978, and far exceeded the 1.2 percent growth for the whole year in 1983. Why so much job growth in 1984? In the recovery year 1983, Virginia experienced high demand growth, but much of the new demand was met by using the slack in business capacity which had developed during the recession. The continued demand growth in 1984, even though it was at a somewhat lower rate than in 1983, required new capacity, spurring the expansion of existing businesses and the formation of new ones. New businesses meant new jobs, pushing wage and salary employment to record levels. With this job growth, earned income also grew rapidly, which in turn supported the expansion of businesses to serve the growing local resident demand. The cumulative effect made 1984 the year of new job opportunities in Virginia, the best in six years and probably the best for several years to come.

For a more specific view of the job growth we will compare November 1984 with November 1983. In November 1984, payroll employment in nonagricultural industries totaled 2,324,900. That was an increase of 82,900 workers, or 3.7 percent, since November 1983. Where were these new jobs? Employment gains occurred in 34 of Virginia's 41 cities, and 71 of its 95 counties, so the new jobs were widely dispersed throughout the Commonwealth. What industries hired new workers? Retail trade establishments hired 31,500 more employees, an 8.3 percent increase. Breaking that down further, general merchandise and department stores added 12,400 workers; and eating and drinking places, 11,900. Second to retailing, the service sector provided the most new job opportunities, with an increase of 16,400 employees. The type of service industry with the largest growth was business services, which had 5,700 more employees in November 1984.

The third major source of new jobs based on the November data was construction, where employment increased by 11,700 compared to November 1983. This expansion resulted from the rapid pace of commercial growth, particularly in retailing and services, as well as demand for residential housing. The fourth largest source of jobs was the growth of 11,200 in local government employment, as localities expanded their operations to meet the public service demands of a growing population.

Those four industries, retailing, services, construction, and local government, accounted for 70,800 of the 82,900 new jobs, or 85.4 percent. Moreover, nonmanufacturing in

Chart I
Nine Selected Business & Economic Indicators Percentage Change

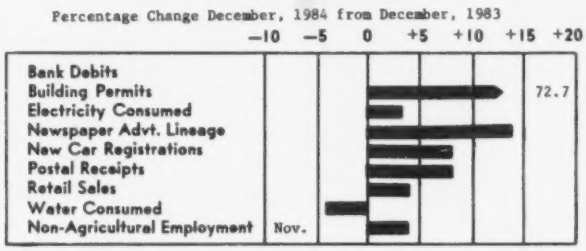

Chart II
City Indices

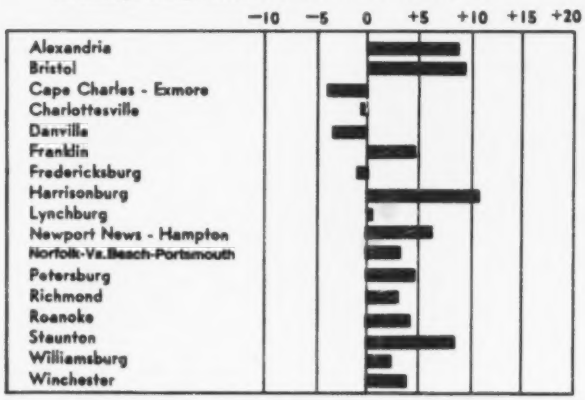

TABLE II November, 1984 Percentage Change from same month last year.

CITY	CITY INDEX *	BANK DEBITS *	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWSPAPER ADV. LINAGE	NEW CAR REGISTRATIONS	OCTOBER NON AGRICULTURAL EMPLOYMENT #	WATER CONSUMED	RETAIL SALES †	OCT. RETAIL SALES ‡
The State		6.2	-3.4	1.5	12.1	10.4	3.9	3.8	12.5	14.1
Alexandria	6.4	5.1	-34.5	-3.9	N.A.	2.9	6.9	14.4	8.4	11.9
Bristol	10.7	19.0	47.4	-3.3	5.9	6.4	4.1	11.8	18.1	3.5
Cape Charles - Exmore	4.7	-11.4	81.7	2.0	N.A.	1.2	N.A.	11.4	4.5	18.4
Charlottesville	-0.3	23.8	-38.5	5.3	N.A.	-23.8	3.8	0.1	5.6	4.9
Danville	-3.1	N.A.	-59.5	-5.2	17.1	-5.8	0.7	1.6	-9.8	7.9
Franklin	3.6	N.A.	320.5	5.0	5.9	32.4	N.A.	-19.0	0.4	36.9
Fredericksburg	17.9	11.1	-48.0	N.A.	10.5	25.7	N.A.	3.3	22.6	41.5
Harrisonburg	-0.7	52.7	-62.4	N.A.	15.0	-23.9	N.A.	2.7	0.7	10.4
Lynchburg	11.3	29.8	28.6	2.7	N.A.	10.9	2.1	3.6	16.8	-3.7
Newport News - Hampton	12.2	-5.9	76.4	5.4	21.0	14.1	5.2	4.9	13.3	1.5
Norfolk - Va. Beach - Portsmouth	12.8	-24.5	-12.2	5.9	16.3	15.5	3.9	5.7	15.4	12.0
Petersburg	7.2	55.8	508.9	N.A.	-16.6	6.7	1.0	-7.2	20.0	15.7
Richmond	12.1	-2.4	-54.0	4.7	10.6	0.3	3.7	4.2	21.7	11.8
Roanoke	5.7	-9.2	484.6	4.6	14.6	-8.6	4.7	-6.1	11.9	3.0
Staunton	-2.4	31.9	296.7	N.A.	4.2	-14.0	N.A.	N.A.	-0.8	6.2
Williamsburg	5.5	55.7	-48.5	2.8	N.A.	-3.2	N.A.	-6.7	13.3	36.4
Winchester	0.8	19.9	-15.8	5.6	-2.0	4.1	N.A.	6.1	-2.8	4.4

general, which includes these four major sources, accounted for 81,800, or 98.7 percent, of the net new jobs in the Commonwealth in November 1984. In manufacturing there was a net increase of only 1,100 jobs. Durable goods manufacturing, of goods with a life of three years or more, added 5,600 employees, 65 percent of which were in the production of nonelectrical machinery and transportation equipment. But, employment in non-durable goods manufacturing declined by 4,500, mainly because of a decrease of 2,900 workers in textile mill production and 1,900 in tobacco manufacturing. Therefore, comparison of November 1984 with November 1983 indicates the new job opportunities were almost entirely in nonmanufacturing, led by the growth in retail trade and services. As a result, manufacturing employment in Virginia declined as a percent of total nonagricultural employment, from 18.3 percent to 17.7 percent.

The growth rate in employment has slowed down in recent months. The September to September growth rate was 4.1 percent, followed by 3.9 percent from October to October, and 3.7 percent for November. That trend is expected to continue in 1985, with employment growth for the year of about 2.5 percent. That will be a satisfying accomplishment, but well below the high growth rate and number of new jobs achieved in 1984. Also, look for the main sources of new job growth to continue to be in retail trade and services in 1985, as Virginia continues to build its capacity in the supporting industries which primarily serve local residents and businesses.

High job growth, much higher than in 1983, truly dominated the economic picture in Virginia in 1984. For the rest of the picture we will compare the cumulative 1984 percentage changes for the other economic indicators in Table III with the percentage changes realized in 1983. Building permits for all the urban areas increased by 17.5 percent in 1984, compared to a 42.8 percent increase in 1983. Substantial but slower growth overall in planned construction. But, the pattern varied widely by area. Building permit growth accelerated in 1984 along a line from west to east across the Commonwealth, from Bristol to Roanoke and Danville, with a loop up to Staunton and Charlottesville, then down to Petersburg and the Newport News-Hampton area. New car registrations Statewide grew by 16.5 percent in 1984, reflecting high demand for consumer durable goods, but at a slower pace than the 25.7 percent growth in 1983. The growth rate was lower for all areas except Fredericksburg, Franklin, and Staunton. Electricity consumed was up 4.6 percent overall in 1984, compared to a 6.1 percent growth rate in 1983. However, for 7 of the 13 areas for which data are available, the 1984 growth rate exceeded the 1983 pace. The growth rate for water consumed was 1.6 percent, slightly higher than the 1983 rate of 1.0 percent. But, here again the pattern was very uneven around the State. Newspaper advertising linage showed stronger growth, 11.7 percent in 1984 compared to 8.8 percent in 1983, reflecting the high growth in new businesses, job openings, and retail trade.

The retail trade growth is measured by two indicators, the lagged taxable sales data reported by the Department of Taxation and our own current month sample of retail establishments. Readers frequently inquire about the often large differences between the growth rates shown by these two indicators, so an explanation is appropriate. The Department of Taxation data reflects the sales of all businesses subject to the Virginia General Sales and Use Tax, so it is the broadest measure available for total retail trade. Our sample does not parallel the mix of businesses shown in the taxable sales reports. That would be difficult to construct and to maintain, just as in the stock market it is an expensive task to maintain "index" investment funds which continually mirror the overall stock market. A major difference between our sample and the taxable sales data is that our sample is more heavily weighted towards firms selling nondurable goods and services. For example, the taxable sales figures include building supply firms and business equipment retailers, types of firms not included in our sample. Therefore increased sales resulting from construction activity and business equipment investment are not reflected in our sample. However, the main difference between the two measures is that our sample is intended to show how the same set of retail establishments fared from one year to the next, just as the Dow Jones Industrial Average is adjusted to show a comparable measure over time of the market value for *one group* of companies. The Dow Jones Industrial Average does *not* measure the changes in the total value of all stocks, of new as well as old companies, over time. Similarly, our retail sales sample provides a year to year comparison of the sales for a given group of existing establishments, whereas the Department of Taxation data measures the total growth in retail sales, by new businesses as well as previously existing ones. Therefore

SELECTED BUSINESS AND ECONOMIC INDICATORS FOR 17 CITIES

TABLE I — Monthly Index Number Comparisons of Current Month to Same Month in Base Period (1977) - Base Period = 100

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	Nov. NON AGRI-CULTURAL EMPLOYMENT	WATER CONSUMED	RETAIL SALES †	POSTAL RECEIPTS
The State		284.7	178.6	128.9	104.2	212.2	121.8	81.3	264.9	302.9
Alexandria	368.9	241.9	321.3	131.5	N.A.	121.0	402.2	92.4	322.8	N.A.
Bristol	166.3	32.6	53.7	114.6	83.1	86.2	103.3	90.5	220.2	295.7
Cape Charles - Exmore	129.4	72.3	48.8	112.7	N.A.	74.8	N.A.	N.A.	109.1	261.6
Charlottesville	207.3	381.1	146.2	124.7	N.A.	99.7	103.2	102.8	261.9	338.2
Danville	163.0	N.A.	42.0	92.5	129.1	70.3	101.2	70.9	209.3	312.9
Franklin	159.1	N.A.	26.5	114.8	133.8	95.1	N.A.	95.2	180.6	292.2
Fredericksburg	190.4	468.3	87.7	N.A.	146.7	129.1	N.A.	54.5	197.0	411.3
Harrisonburg	175.9	109.6	127.3	N.A.	141.6	84.9	N.A.	126.2	201.9	272.9
Lynchburg	225.7	407.4	100.6	122.4	N.A.	72.?	99.9	110.0	238,8	558,7
Newport News - Hampton	168.8	N.A.	339.5	110.9	95.3	85.4	66.1	116.3	258.0	N.A.
Norfolk - Va. Beach - Portsmouth	204.1	265.9	205.1	141.6	97.0	103.4	86.6	65.4	340.4	N.A.
Petersburg	164.1	104.8	132.1	N.A.	71.9	48.4	101.2	83.6	236.0	237.0
Richmond	183.6	296.8	509.5	146.0	126.1	83.1	118.2	94.0	252.6	261.9
Roanoke	145.8	453.9	95.4	109.6	104.8	61.5	110.7	94.4	188.4	321.1
Staunton	161.1	120.2	63.6	N.A.	87.6	87.2	N.A.	N.A.	194.3	208.7
Williamsburg	181.1	149.9	188.2	151.4	N.A.	98.3	N.A.	72.9	192.5	367.8
Winchester	177.8	275.8	44.6	125.5	187.0	88.2	N.A.	120.0	185.3	345.7

TABLE II — December, 1984 — Percentage Change from same month last year.

CITY	CITY INDEX *	BANK DEBITS*	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	NOVEMBER NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	NOV. RETAIL SALES ‡
The State			72.7	3.2	13.3	7.8	3.7	-4.1	3.8	14.7
Alexandria	8.4	9.4	521.8	-1.0	N.A.	14.7	7.0	-3.1	13.3	17.6
Bristol	9.5	12.5	154.5	6.3	5.7	8.7	2.9	8.6	12.4	9.5
Cape Charles - Exmore	-3.7	-22.9	-62.1	6.6	N.A.	-8.9	N.A.	37.6	-19.1	16.3
Charlottesville	-0.5	15.6	-62.1	4.3	N.A.	24.7	3.8	-5.5	-8.8	1.1
Danville	-3.5	N.A.	-26.6	-15.6	17.4	-13.7	0.5	2.2	-5.0	13.7
Franklin	4.6	N.A.	N.A.	-9.8	-2.9	41.5	N.A.	-3.5	2.2	29.1
Fredericksburg	-0.9	13.4	66.5	N.A.	3.3	15.3	N.A.	-2.4	-7.2	39.4
Harrisonburg	10.7	215.0	-76.0	N.A.	17.8	28.5	N.A.	5.0	4.3	6.6
Lynchburg	0.3	-17.4	156.1	0.3	N.A.	-10.7	2.7	-13.3	8.5	18.2
Newport News - Hampton	6.2	24.8	89.2	10.0	20.3	-4 8	5.5	3.4	4.8	7.2
Norfolk - Va. Beach - Portsmouth	2.9	-36.6	38.2	7.7	21.2	4.9	4.2	-11.4	-0.6	13.4
Petersburg	4.0	27.3	1919.5	N.A.	-4.3	-5.5	2.4	-7.4	13.7	19.3
Richmond	2.5	-4.2	366.7	6.6	10.1	2.6	2.9	-1.4	-0.2	17.7
Roanoke	4.0	-15.4	212.9	5.6	6.7	-0.4	4.8	-5.2	7.2	3.1
Staunton	8.4	40.5	129.4	N.A.	13.2	33.5	N.A.	N.A.	-1.6	6.7
Williamsburg	2.0	22.8	70.9	5.3	N.A.	0.9	N.A.	-12.6	6.2	29.4
Winchester	3.4	14.5	-51.1	3.8	9.6	-0.7	N.A.	-0.2	3.8	9.9

TABLE III — Percentage Change January - December from same period last year

CITY	CITY INDEX *	BANK DEBITS*	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	JAN.-NOV. NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	JAN.-NOV. RETAIL SALES‡
The State			17.5	4.6	11.7	16.5	4.1	1.6	8.4	18.6
Alexandria	8.8	21.9	-3.9	0.5	N.A.	13.9	5.8	2.6	11.9	22.7
Bristol	14.9	-3.3	45.3	6.0	0.2	20.1	4.1	15.3	21.0	15.3
Cape Charles - Exmore	0.9	29.9	56.4	-1.9	N.A.	20.9	N.A.	10.1	-7.9	14.2
Charlottesville	1.7	24.7	49.8	6.5	N.A.	10.7	2.2	-3.2	-1.2	16.9
Danville	4.8	N.A.	45.0	0.4	15.0	10.7	1.2	2.4	1.6	15.0
Franklin	5.6	N.A.	2.9	1.9	3.9	26.4	N.A.	-9.4	5.5	21.4
Fredericksburg	10.5	-11.1	5.4	N.A.	8.3	30.7	N.A.	0.6	7.7	41.1
Harrisonburg	8.2	50.4	33.0	N.A.	12.1	12.7	N.A.	2.4	7.3	19.5
Lynchburg	11.7	-16.4	-16.5	3.7	N.A.	15.3	3.2	2.5	16.2	17.7
Newport News - Hampton	6.9	7,4	53.0	5.3	13.9	18.2	5.2	-0.5	3.8	12.9
Norfolk - Va. Beach - Portsmouth	9.4	-7.4	11.0	7.0	14.7	16.8	4.8	3.9	7.7	17.4
Petersburg	2.8	-4.4	370.0	N.A.	-9.1	12.3	-0.9	-7.4	7.0	13.9
Richmond	9.0	1.3	10.8	8.9	11.9	21.0	2.7	1.4	6.5	17.0
Roanoke	11.5	-0.1	49.8	7.2	12.8	16.0	3.7	-0.8	15.2	17.2
Staunton	5.0	34.1	20.9	N.A.	4.1	23.5	N.A.	N.A.	-0.9	7.6
Williamsburg	6.6	33.0	46.2	5.8	N.A.	17.3	N.A.	5.6	3.7	18.2
Winchester	8.1	15.4	-13.6	8.6	14.0	16.3	N.A.	9.8	2.6	25.0

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits and Bank Debits, which are excluded because of their highly erratic nature.
#Virginia Employment Commission data which lags behind current reports.
†Preliminary data based on a survey sample.
‡Revised data based on sales tax information which lags behind current reports.

the difference between the two measures, taken for the same month in each year, is in large part the difference between the sales growth of existing businesses and the impact on total sales of new business information in the area. For example, our retail sales sample in November 1984, as shown in the November Table II, indicated that Statewide our sample of establishments experienced a 12.5 percent sales growth compared to November 1983. However, the November 1984 Department of Taxation figures showed a 14.7 percent growth from November to November, as reported in the December Table II, a higher growth rate reflecting the growth produced by new businesses as well as those which have been operating for several years. For an area where there has been a rapid growth in the number of new retail businesses which partly divert sales from existing ones, the differences can be quite large. For example, our retail sales sample in Northern Virginia (listed as the Alexandria area in our tables) reported a sales growth of 8.4 percent from November to November, while the Department of Taxation retail sales data showed an increase of 17.6 percent. This comparison is a rough indication that new businesses accounted for about one-half of the retail sales growth in the area. In sum, the two measures of retail sales activity are quite different by design, and provide different types of information.

That methodological perspective is useful in examining the State retail sales performance in 1984. The eleven months of Department of Taxation data available show retail sales growth of 18.6 percent compared to the same period last year. For 1983, the eleven-month growth was 19.3 percent above the 1982 sales levels. Thus total retail sales this year have grown at only a slightly lower rate than in 1983. The Bureau's retail sales sample, which is reported for the full calendar year, showed sales for this group of establishments was up 8.4 percent for 1984, also somewhat below the 10.0 percent growth realized in 1983. The difference between the 18.6 percent taxable sales growth and the 8.4 percent growth for our sample largely reflects the high growth of new retail businesses in the Commonwealth in 1984. For the 17 urban areas we cover, a comparison of the last two columns of the December Table III reveals a similar result, varying somewhat in magnitude, for 16 of the areas. Only in the Bristol area was the growth rate for our retail sales sample higher than the overall rate of taxable sales growth. That is consistent with the employment data, which showed retail sales employment in the Bristol area was slightly lower in November 1984 than in November 1983, indicating the area has not experienced the growth in net new retail businesses that generally occurred in Virginia.

Year-End View

The slowing pace of employment growth already has been noted — the boom in new jobs is over for a while, with much more modest growth ahead. The growth in durable goods demand, as evidenced by new car registrations, also is slowing. In October new car registrations were up 21.9 percent over October 1983; in November, up 10.4 percent; and then in December the increase was only 7.8 percent above December 1983. Slower growth, but remember that in December 1983 new car registrations had surged to 43.4 percent above the December 1982 levels. New car demand still remains high, even though the growth rate is lower now and can be expected to remain low in 1985.

Building permits rose strongly in December, up 72.7 percent compared to last December, after year over year declines of 20.6 percent in October and 3.4 percent in November. Lower interest rates and the unusually good December weather contributed to the turn-around. However, 1985 growth is likely to be below the 17.5 percent average for 1984, as both commercial and residential construction demand rise at a more modest pace.

The year-end retail sales picture is somewhat mixed, with not all of the data in yet. Our retail sales sample reported high growth in November, up 12.5 percent over last November. The Department of Taxation figures confirmed a broad November gain, with an overall increase of 14.7 percent in total taxable sales and gains of 9.5 percent or more in 12 of the 17 areas we cover. By comparison, the national increase in retail sales excluding automotive dealers was 7.7 percent from November 1983 to November 1984 (automotive dealers are excluded to make the data roughly comparable to Virginia's general taxable sales which do not include the separately taxed sales of new cars). Thus retail sales growth in November in nearly all parts of Virginia was definitely above the national pace. However in December our retail sales sample showed an increase of only 3.8 percent over December 1983. When the final figures for all Virginia businesses are available, the total December increase most likely will be much higher, partly because of increased sales of building materials as well as the growth in the number of establishments in 1984. Nationally, December retail sales excluding the automobile group were 8.7 percent above December 1983, and Virginia's retail sector should have faired at least as well. But, the data currently available do tend to confirm what many retailers have reported, that competition for the consumers' dollars was fierce in December and customers were very selective in their purchases.

What lies ahead? Virginia personal income still is growing at a high rate, and that growth will continue in 1985. Moderate employment growth will occur; in addition, the newly hired workers in 1984 will be earning income for the *full* year in 1985. Add in an allowance for moderate wage increases and profit growth, and our November prediction that Virginia personal income will rise by approximately 10 percent in 1985 still appears to be on target. Taxable retail sales also can be expected to grow Statewide at the same 10 percent rate.

As we stated in November, our forecasts for 1985 are based on the assumption that Congress will in fact take clear action to reduce the Federal deficit — "What we expect, and hope for, are changes which will reduce the deficit by up to $50 billion in fiscal year 1986." That still is the number one national priority, and we still believe it will occur. Suppose it does not? That will weaken the nation considerably, with new imbalances and uncertainty developing. However, such developments would not be likely to produce a recession in 1985. Whatever the outcome, Virginia has the industrial mix and momentum to outperform the nation in business, income, and job growth. Therefore 1985 will be a good year for Virginia. It will be a better one for Virginia and the nation, with the door left open for continued growth in 1986, if Congress does pass a clearly defined deficit reduction program. RLP

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U1120-14

VIRGINIA BUSINESS REPORT

Postscript For December, 1984

The December figures for retail sales taxed under Virginia's General Sales and Use Tax now are available, giving a broader picture of the Christmas season for Virginia retailers. December 1984 retail sales were up 8.7 percent compared to last December, not quite the 10 percent increase we predicted but still a substantial gain from the very strong December 1983 levels. Remember also that our November retail sales growth was almost twice the national rate. Some early buying, especially around Thanksgiving, certainly affected the December growth. How did our December sales compare to the national performance? The February 13 release by the Department of Commerce shows adjusted retail sales excluding the automobile group increased nationally by 7.3 percent from December to December (the automobile group is excluded for comparability since new car sales are not included in the Virginia General Sales Tax data). Therefore Virginia's retail sales growth of 8.7 percent exceeded the national average. The last column of Table II gives the percent changes by area as well as for the State. Nine of the 17 areas achieved double-digit gains; and only four areas had retail sales below last December.

Business in Virginia January, 1985 Data

As stated in the November issue, we expect the first quarter 1985 growth in Virginia to be strong, led by consumer spending for nondurable goods and services with lower growth in durable goods demand and little or no growth in building permits above the exceptional levels of early 1984. Employment growth year over year should be fairly strong in the first quarter, followed by more moderate growth in the rest of the year. The January business data, and the employment data now available for December, support those expectations.

Building permits in January were up only 2.1 percent Statewide from the high levels of January 1984. The wide range in the growth rates across areas implies the January permits largely were for commercial building or large developments, with the severe weather mainly delaying planned single-family housing starts. However, the low January growth did match expectations, and overall it still represents a high level of planned construction. New car registrations also grew at a very modest pace Statewide, pointing to slowing growth in demand for major durable goods.

The strongest evidence for our expected first quarter scenario was the 20.3 percent increase in retail sales for the Bureau's sample of retail establishments. This sample, as described last month, tracks the sales of established businesses and does not reflect growth produced by new stores. However, these establishments had a very good January, in spite of the weather. Far better than nationally, where the comparable advance report was only 3.0 percent sales growth. Virginia retailers in general had strong promotions in January as indicated by the 10.4 percent growth in newspaper advertising linage. Our early evidence implies these promotions did attract large numbers of shoppers. Will retail growth in Virginia continue after the clearance sales? Most probably, but at only about one-half of the 20 percent growth seen in January.

The 4.8 percent decrease in electricity consumed and the low 2.0 percent gain in water consumed imply lower production rates in Virginia in January. However, continued strong consumer demand and lower inventories can be expected to generate increased orders and production rates during the first quarter. December nonagricultural employment was 3.8 percent above December 1983, slightly above

Chart I
Nine Selected Business & Economic Indicators Percentage Change
Percentage Change January, 1985 from January, 1984

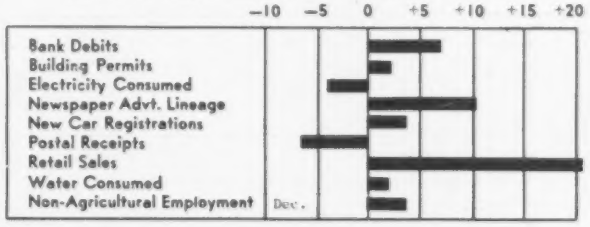
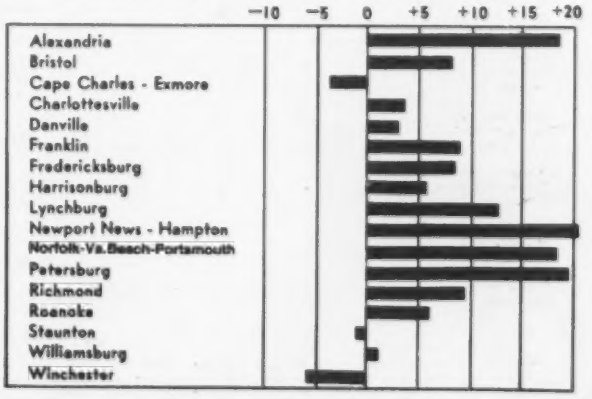


Chart II
City Indices
Percentage Change January, 1985 from January, 1984



the November growth rate of 3.7 percent. The first quarter employment growth is likely to be strong as production rises in response to new orders, but growth in subsequent quarters will follow a declining trend. New jobs will be available, but the overall growth rate for 1985 will be considerably less than in 1984.

For the individual urban areas, the economic indicators generally gave very mixed readings in January — each area had some weaknesses as well as strengths. In general, Northern Virginia, identified as the Alexandria area in our tables, and the Newport News-Hampton area showed the most consistent strength, and therefore the best overall results. Petersburg also displayed substantially more strength than weakness, a promising sign for that area. For the rest of the areas, the January business indicators generally showed a satisfying beginning for 1985, with the exception of the Eastern Shore (Cape Charles-Exmore) and the Shenandoah Valley urban areas of Staunton and Winchester. Most of the urban areas we cover began 1985 with general business gains which support the view that 1985 will be a year of more moderate but quite healthy economic growth for Virginia.

RLP

SELECTED BUSINESS AND ECONOMIC INDICATORS FOR 17 CITIES

TABLE I January, 1985

Monthly Index Number Comparisons of Current Month to Same Month in Base Period (1977) - Base Period = 100

CITY	CITY INDEX*	BANK DEBITS*	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	DECEMBER NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	POSTAL RECEIPTS
The State		316.9	157.9	145.4	85.6	250.9	267.2	89.0	133.1	122.5
Alexandria	142.6	247.1	1171.1	154.2	N.A.	118.4	406.4	97.5	161.9	N.A.
Bristol	130.6	30.0	22.1	118.7	44.6	88.4	102.9	84.0	145.6	272.1
Cape Charles - Exmore	127.7	63.0	75.4	123.7	N.A.	87.8	N.A.	N.A.	118.9	198.1
Charlottesville	160.4	377.4	150.1	137.5	N.A.	154.0	103.6	105.2	165.8	228.7
Danville	110.0	N.A.	252.3	110.8	91.6	92.3	100.7	88.9	102.1	190.0
Franklin	124.4	N.A.	92.1	143.1	94.1	91.8	N.A.	96.8	116.2	220.8
Fredericksburg	154.7	76.1	59.6	N.A.	119.8	173.3	N.A.	57.5	133.1	333.2
Harrisonburg	135.6	103.8	48.0	N.A.	93.3	107.0	N.A.	107.9	128.9	254.3
Lynchburg	220.0	434.8	22.4	123.1	N.A.	111.8	100.0	103.2	151.8	746.8
Newport News - Hampton	137.6	214.8	202.5	125.1	72.7	97.9	66.3	130.7	178.9	N.A.
Norfolk - Va. Beach - Portsmouth	151.4	303.8	139.3	165.3	83.9	109.5	87.2	75.1	208.7	N.A.
Petersburg	124.2	108.1	155.4	N.A.	39.3	82.3	101.2	93.1	150.1	204.3
Richmond	132.0	312.3	140.4	164.2	104.7	124.2	118.1	101.0	115.1	216.2
Roanoke	118.5	575.3	82.4	108.4	123.4	95.8	110.8	100.0	89.9	250.5
Staunton	105.2	117.2	8.9	N.A.	65.8	92.9	N.A.	N.A.	87.9	208.7
Williamsburg	121.2	142.4	323.1	161.6	N.A.	105.1	N.A.	64.4	89.9	247.4
Winchester	126.5	247.2	30.5	125.2	136.1	119.5	N.A.	122.7	84.9	254.0

TABLE II January, 1985

Percentage Change from same month last year.

CITY	CITY INDEX*	BANK DEBITS*	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	DECEMBER NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	DEC. RETAIL SALES ‡
The State		6.8	2.1	-4.8	10.4	3.7	3.8	2.0	20.3	8.7
Alexandria	18.5	-9.4	351.9	-5.4	N.A.	0.9	7.2	11.6	34.6	13.0
Bristol	7.7	-15.3	-70.1	-13.1	-7.0	-4.0	2.2	0.9	25.7	-7.1
Cape Charles - Exmore	-3.7	-26.4	-61.4	-4.9	N.A.	1.9	N.A.	-5.2	-4.6	-0.8
Charlottesville	3.3	13.8	-91.1	-5.2	N.A.	13.0	4.5	-2.3	4.7	8.8
Danville	2.8	N.A.	-77.3	-0.2	15.0	-13.4	1.5	7.8	3.5	16.0
Franklin	8.6	N.A.	186.1	-4.6	0.1	0.0	N.A.	2.5	20.7	54.0
Fredericksburg	8.1	3.1	24.6	N.A.	14.3	17.9	N.A.	-7.4	7.9	23.0
Harrisonburg	5.5	235.3	-47.7	N.A.	10.5	18.5	N.A.	0.8	1.0	11.0
Lynchburg	12.8	-14.1	-62.0	-10.1	N.A.	8.7	2.1	-15.4	31.1	11.4
Newport News - Hampton	20.2	1.0	80.9	-2.6	12.3	-6.6	5.5	8.5	43.2	-2.7
Norfolk - Va. Beach - Portsmouth	16.6	53.5	-34.1	-5.7	12.9	5.9	4.2	-0.4	34.5	4.0
Petersburg	18.0	-7.2	-4.2	N.A.	-8.5	-14.5	3.5	-4.6	45.2	10.8
Richmond	9.1	0.3	133.2	-2.1	3.7	-9.1	2.4	5.0	22.1	8.7
Roanoke	5.7	11.0	34.5	-4.7	17.9	5.6	4.9	-5.9	9.0	13.1
Staunton	-0.8	19.7	-92.0	N.A.	-4.5	1.5	N.A.	N.A.	-0.4	-3.2
Williamsburg	1.2	-17.4	143.3	-5.3	N.A.	-27.5	N.A.	-10.9	16.9	19.0
Winchester	-5.7	13.1	10.6	-5.8	16.7	-6.0	N.A.	-6.5	-12.7	1.1

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits and Bank Debits, which are excluded because of their highly erratic nature.
#Virginia Employment Commission data which lags behind current reports.
‡Preliminary data based on a survey sample.
†Revised data based on sales tax information which lags behind current reports.

N.A. - Not Available
0.0 - No Change

Employment Growth in Virginia SMSAs

In the January perspective for 1984, we illustrated with November employment data that job growth was the most salient feature of Virginia's 1984 economic performance. The new benchmark employment data for 1983 and 1984 now are available from the Virginia Employment Commission, giving a more accurate and complete measure of the State's nonagricultural employment in the past two years. The benchmark data are based on comprehensive quarterly reports, and therefore include job information not picked up in the monthly surveys. For a year of rapid job growth such as 1984, this generally means the February benchmark measures reveal higher growth than the monthly surveys, particularly in retail trade and services. Therefore to provide a more precise view of job growth in 1984, half of this issue is devoted to the benchmark employment data, in total and by major types, for Virginia and its ten Standard Metropolitan Statistical Areas (SMSAs). The SMSAs are emphasized since Virginia was discussed at length in the January issue. One technical note- the SMSA definitions used here are the familiar ones which applied through July 1, 1983 and which the VEC has used in its monthly reports to the present. In the future, the new definitions now in use in Federal statistics will be utilized by the VEC and the *Virginia Business Report*.

Table III gives the 1984 nonagricultural employment, in total and for each of nine industry groups, for the State, each of the ten SMSAs, and the ten SMSAs combined. Reading across the rows shows the size of each industry's employment in relation to the total for the area, and reading down the column indicates where the State's employment in each category is concentrated. Table IV shows the employment growth rates from 1983 to 1984, for each industry and SMSA.

The ten SMSAs together account for 74.7 percent of Virginia's total nonagricultural employment, so metropolitan job growth dominates in the State job growth rate. The ten

NONAGRICULTURAL EMPLOYMENT IN VIRGINIA AND TEN STANDARD METROPOLITAN STATISTICAL AREAS

Average Employment in Thousands, 1984

Area	Total Non-Agricultural Employment	Durable Goods Manufacturing	Nondurable Goods Manufacturing	Construction	Transportation and Public Utilities	Wholesale and Retail Trade	Finance Insurance and Real Estate	Services	Federal Government	State and Local Government
The State	2,325.0	194.8	225.3	131.8	127.6	513.0	117.2	492.8	167.6	336.8
Sum of SMSAs	1,736.3	127.7	118.2	99.4	100.2	399.8	100.4	396.4	150.2	242.4
Northern Virginia	559.9	17.4	11.1	34.9	38.5	127.2	34.5	164.3	74.0	57.4
Bristol	28.2	5.0	4.8	1.0	1.1	6.6	1.1	3.7	0.6	4.3
Charlottesville	60.1	6.5	3.7	3.1	2.0	10.7	3.2	9.8	1.2	19.8
Danville	39.6	3.0	15.2	1.5	1.0	7.5	1.1	5.3	0.3	4.7
Lynchburg	72.4	17.4	10.2	2.8	3.2	13.3	3.2	12.6	0.6	9.2
Newport News	164.0	33.1	6.5	7.7	4.7	34.7	5.1	33.6	16.8	21.6
Norfolk	319.9	15.9	11.7	22.1	20.1	80.8	16.3	70.2	38.6	44.1
Petersburg	42.4	2.2	5.3	2.0	1.2	8.7	1.2	6.4	5.2	10.2
Richmond	342.9	15.7	40.5	18.8	20.2	83.1	28.3	66.4	9.6	59.9
Roanoke	106.9	11.5	9.2	5.5	8.2	27.2	6.4	24.1	3.3	11.2

TABLE IV

Employment Percentage Change, 1983-1984

Area	Total Non-Agricultural Employment	Durable Goods Manufacturing	Nondurable Goods Manufacturing	Construction	Transportation and Public Utilities	Wholesale and Retail Trade	Finance Insurance and Real Estate	Services	Federal Government	State and Local Government
The State	5.4	6.5	2.1	15.7	6.0	6.8	6.4	7.0	2.9	-0.4
Sum of SMSAs	6.0	6.2	2.6	17.1	5.4	6.4	7.2	7.5	3.7	1.7
Northern Virginia	9.8	12.3	19.4	22.9	10.6	8.3	12.0	10.3	6.3	5.3
Bristol	4.8	13.6	9.1	11.1	0.0	0.0	22.2	5.7	20.0	-4.4
Charlottesville	5.1	-3.0	8.8	19.2	5.3	5.9	14.3	6.5	0.0	3.1
Danville	1.0	3.4	-3.2	7.1	0.0	4.2	0.0	3.9	0.0	0.0
Lynchburg	4.5	5.5	2.0	12.0	6.7	6.4	0.0	4.1	20.0	3.4
Newport News	4.7	3.1	4.8	11.6	0.0	8.8	8.5	5.7	0.0	0.5
Norfolk	5.4	7.4	3.5	16.3	1.5	7.2	5.1	5.8	1.3	2.1
Petersburg	1.4	4.8	-8.6	17.6	0.0	3.6	0.0	-5.9	6.1	6.3
Richmond	3.3	7.3	0.7	15.3	4.1	3.1	3.7	5.7	-1.0	-1.6
Roanoke	4.6	8.3	3.4	5.7	0.0	5.4	3.2	7.6	0.0	-1.8

Source: Virginia Employment Commission, February, 1985 Benchmark Employment Data.
Bureau of Business Research calculations.

SMSAs achieved overall employment growth of 6.0 percent in 1984. The State growth was a lower 5.4 percent, accounted for by the non-SMSA employment growth of only 3.6 percent.

Northern Virginia alone had average nonagricultural employment of 559.9 thousand in 1984, representing 32.2 percent of the State total. That SMSA also had the highest overall 1984 employment growth rate, 9.8 percent. Its growth rates in the nine industry groups were all positive and the highest in the State in four groups: nondurable goods manufacturing, + 19.4 percent; construction, + 22.9 percent; transportation and public utilities, + 10.6 percent; and services, + 10.3 percent. Strong manufacturing growth has been occurring there, but the major force at work has been the inmigration of people to a growing area where the unemployment rate consistently has been 3 percent or less. People moving there because of job opportunities in turn have generated high demand growth in construction and private services as well as general trade and local government services. The high 9.8 percent employment growth in Northern Virginia pulled the average SMSA rate to 6.0 percent. As Table IV shows, no other SMSA had a growth rate as high as 6.0 percent; and only one other, the Norfolk-Virginia Beach-Portsmouth SMSA, had a growth rate as high as the 5.4 percent State-wide rate.

The Norfolk SMSA growth rate of 5.4 percent was the second highest among the SMSAs. The key feature in this SMSA's performance is balanced growth, as we noted in the July issue. Its employment growth rates in the nine industry groups ranked fifth among the SMSAs in 6 groups, and third in 3 groups. Thus its growth was not exceptional in any one group, but its sustained growth in all categories produced strong overall employment growth. It also is interesting to note that the two most rapidly growing SMSAs, Northern Virginia and Norfolk, had less than 10 percent of their total employment in manufacturing.

The Charlottesville SMSA had the third highest employment growth rate, 5.1 percent. This is a substantially higher rate than the monthly data indicated, since the benchmark 1984 data revealed significantly more job growth had occurred in construction, services, wholesale and retail trade, and State and local government. Its growth rates ranked second among all SMSAs in construction, + 19.2 percent; finance, insurance and real estate (FIRE), + 14.3 percent; and services + 14.3 percent. In addition, nondurable goods manufacturing increased by 8.8 percent, the third highest rate. The only negative was a decline of 3.0 percent in durable goods manufacturing.

No other SMSAs had employment growth above five percent. However, four other SMSAs did have strong growth in the four percent range: Bristol, 4.8 percent; Newport News-Hampton, 4.7 percent; Roanoke, 4.6 percent; and Lynchburg, 4.5 percent. Bristol's strength was high employment growth in manufacturing, particularly its 13.6 percent gain in durable goods manufacturing which was the highest rate among all SMSAs. Its main weakness has been the lack of growth in wholesale and retail trade employment- it was the only SMSA which showed no growth in 1984 in this category. The Newport News-Hampton SMSA showed a pattern almost the direct opposite of Bristol's. The Newport News area achieved only moderate growth rates in its already high level of manufacturing employment but led the State with its growth rate of 8.8 percent in wholesale and retail trade. Of the nine industry groups examined, the wholesale and retail trade employment of 34.7 thousand in this SMSA is its largest source of total employment, slightly above the 33.6 thousand in services and 33.1 thousand in durable goods manufacturing.

The Roanoke SMSA growth of 4.6 percent resulted from a fairly balanced growth across most industry groups, highlighted by its 8.5 perent growth in durable goods manufacturing (third in the State) and 7.6 percent growth in service sector jobs (second in the State). Thus the diversity of its growth in 1984 was the main attribute of its strong employment growth.

The Lynchburg SMSA had 38.1 percent of its employment in manufacturing in 1984, compared to an average of 14.2 percent for the 10 SMSAs combined and 18.1 percent for Virginia. Therefore even though its 5.5 percent growth in durable goods manufacturing ranked sixth among the SMSAs and the 2.0 percent growth in nondurable goods manufacturing ranked seventh, the ability to sustain manufacturing employment gains was the key to Lynchburg's substantial overall job growth. Without continued strength in its manufacturing base, the higher growth rates in other industry groups alone would not have produced the total nonagricultural employment growth of 4.5 percent. However, its 6.4 percent growth in wholesale and retail trade, the fourth highest among the SMSAs, is an encouraging sign of increasing balance in its economic base.

The Richmond SMSA realized more modest employment growth of 3.3 percent. The relatively strong 7.5 percent increase for durable goods manufacturing was offset by almost no change in nondurable goods manufacturing, yielding a 2.6 percent net gain in manufacturing. Government employment, both Federal as well as State and local, declined in 1984. Private sector trade and services registered moderate employment growth accompanied by a high growth rate in construction employment, indicating continued strength in most types of private businesses.

The Petersburg-Colonial Heights-Hopewell SMSA turned from negative to positive employment growth in 1984, with a 1.4 percent gain. The continued depressing effect of the decline in nondurable goods manufacturing (tobacco) and a loss of service jobs over the year was more than offset by substantial increases in government employment plus a modest gain in trade employment. For this SMSA, just returning to net growth has been a long, hard task.

The lowest employment growth among the SMSAs in 1984 was the 1.0 percent growth rate in the Danville SMSA, where in December the unemployment rate still was 9.3 percent, the highest for any SMSA. The continued decline in textile industry employment dampened the growth rates in trade and services, leaving the overall performance almost flat.

In sum, 1984 was the year of job growth in Virginia. Northern Virginia had spectacular growth, and seven other SMSAs achieved moderate to strong increases. Only Petersburg and Danville did not share adequately in the Commonwealth's very healthy employment growth.

RLP

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4/5/85

U1120-1A

VIRGINIA BUSINESS REPORT

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 297 March, 1985

Business in Virginia February, 1985 Data

The data received during the past month contained an unusually large number of surprises. Our first thought was that a few Irish elves decided to scramble the numbers, just for the fun of watching us try to put the pieces back in reasonable order. But, double-checking many of the numbers showed they are correct. So, the question is what do they mean? Each year there are a couple months with erratic movements, since monthly fluctuations can be quite volatile. We will offer some possible explanations for the movements reported in this issue, with the caveat that one month's variations are not sufficient evidence for identifying trends.

One surprise was in a series which we report with a one-month lag, nonagricultural employment. In the February issue we said we expected employment growth year over year should be fairly strong in the first quarter. However, the January nonagricultural employment was 5.4 percent above January 1984, a growth rate which matches the yearly average for 1984. That level of employment growth is well above the "fairly strong" level--there were 121,000 more nonagricultural payroll jobs this January than last.

Closer examination shows the job growth primarily was where we expected. Nonmanufacturing accounted for 113,400 additional workers, or 94 percent of the increase. Trade and services were the big leaders, with a 38,000 person (7.7 percent) rise in trade and 32,000 (6.8 percent) improvement in services. Some of the specific categories with large percentage gains also were logical. Hotels and motels showed a 16.4 percent gain; eating and drinking places, 10.7 percent; and business services, 9.6 percent. These three gains are consistent with our earlier expectation of increased weight on consumption of nondurable goods and services plus a better tourist year for Virginia in 1985.

Construction employment was 16 percent above last January, an increase of 18,200 workers. That was a mild surprise, given the January weather conditions, but it did follow a 72.7 percent increase in building permits in December. A lot of cold construction workers were on the job in January. We still expect construction growth to ease, and the January increase of only 2.1 percent in building permits seemed to be pointing in that direction. However, now we find that building permits increased 19.1 percent in February. Building permits are a highly erratic series whose month-to-month changes can be quite unpredictable. But, our predictions for the year will have to be revised upward a notch or two if Northern Virginia's recent performance continues in the spring. There, the year over year increases were 522 percent in December, 352 percent in January, and 111 percent in February. That area alone accounted for 45 percent of the Statewide gain in construction workers in January. The nonagricultural employment growth rates of 7.2 percent in December and 11.5 percent in January in the Northern Virginia Metropolitan Statistical Area (MSA) provide strong evidence their boom is continuing, a boom which is creating new demand for all types of construction. That alone would push up the overall State performance. Then, too, there is the continued high growth in building permits in the Richmond and Roanoke areas, which also bear watching in the coming months.

Chart I

Nine Selected Business & Economic Indicators Percentage Change

Percentage Change February, 1985 from February, 1984

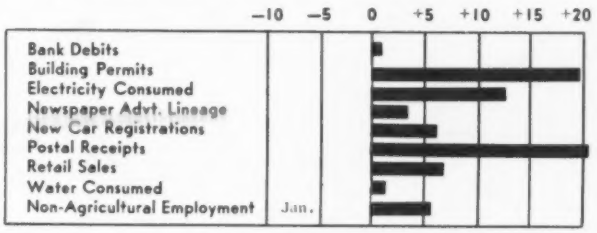
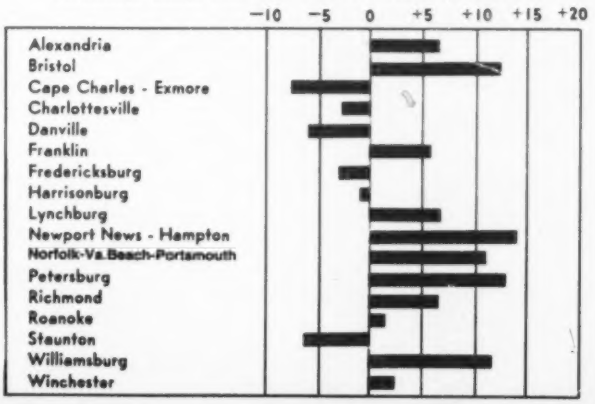


Chart II

City Indices

Percentage Change February, 1985 from February, 1984



SELECTED BUSINESS AND ECONOMIC INDICATORS FOR 17 CITIES

TABLE I February, 1985

Monthly Index Number Comparisons of Current Month to Same Month in Base Period (1977) - Base Period = 100

CITY	CITY INDEX*	BANK DEBITS*	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	JANUARY NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	POSTAL RECEIPTS
The State		258.3	158.7	155.1	86.3	211.6	321.4	79.2	155.5	123.6
Alexandria	129.1	201.3	480.9	165.9	N.A.	100.2	158.7	84.7	141.3	N.A.
Bristol	144.0	25.8	58.0	150.0	83.3	62.4	104.0	103.1	156.7	282.7
Cape Charles - Exmore	110.9	62.4	103.9	N.A.	N.A.	57.7	N.A.	N.A.	98.4	201.5
Charlottesville	160.3	343.8	63.0	147.5	N.A.	95.1	103.6	96.7	167.7	279.9
Danville	107.7	N.A.	49.5	100.9	94.2	72.7	97.8	75.8	93.9	236.1
Franklin	124.9	N.A.	71.6	137.6	88.6	119.7	N.A.	87.6	107.5	243.0
Fredericksburg	153.8	67.8	68.1	N.A.	128.5	150.6	N.A.	53.1	127.7	361.1
Harrisonburg	133.4	34.0	88.9	N.A.	97.6	88.7	N.A.	126.7	123.8	249.6
Lynchburg	251.3	146.2	64.2	140.3	N.A.	72.7	95.7	104.6	149.3	993.6
Newport News - Hampton	123.6	118.5	273.5	134.9	73.4	74.1	[123.5	115.1	155.9	N.A.
Norfolk - Va. Beach - Portsmouth	140.4	270.5	214.0	179.6	84.1	87.1		64.7	189.1	N.A.
Petersburg	121.1	108.9	33.1	N.A.	38.4	59.1	[114.2	79.5	152.6	213.2
Richmond	133.3	280.2	192.5	169.6	98.1	93.0		88.8	118.6	261.4
Roanoke	138.9	357.7	45.7	122.2	119.4	73.7	110.7	87.5	146.8	267.8
Staunton	109.9	101.8	54.8	N.A.	63.7	71.4	N.A.	N.A.	97.4	231.8
Williamsburg	131.7	117.2	129.4	177.6	N.A.	116.1	N.A.	63.7	100.0	264.7
Winchester	142.2	215.6	23.9	141.9	141.8	102.4	N.A.	128.3	106.6	303.0

TABLE II February, 1985

Percentage Change from same month last year.

CITY	CITY INDEX *	BANK DEBITS*	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	JANUARY NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	JAN. RETAIL SALES ‡
The State		-0.8	19.1	12.8	3.7	6.3	5.4	0.9	7.1	0.8
Alexandria	6.2	-14.1	110.9	15.1	N.A.	-5.1	11.5	3.5	7.8	5.8
Bristol	12.2	-29.3	41.5	10.4	17.2	-25.8	3.6	4.3	26.5	-10.2
Cape Charles - Exmore	-7.5	3.4	30.4	N.A.	N.A.	-33.0	N.A.	0.7	-1.8	-3.3
Charlottesville	-2.6	4.0	-81.1	14.0	N.A.	-16.2	5.5	-5.7	-2.5	-28.0
Danville	-5.9	N.A.	-42.6	-1.0	2.7	-19.1	0.5	3.7	-9.1	-8.5
Franklin	5.2	N.A.	249.4	16.8	-1.3	19.7	N.A.	-0.1	0.4	-35.0
Fredericksburg	-2.9	-6.1	19.5	N.A.	7.1	1.3	N.A.	-1.5	-8.1	-15.9
Harrisonburg	-0.2	5.4	-25.1	N.A.	-3.1	26.0	N.A.	3.1	-9.1	9.4
Lynchburg	6.4	-32.3	23.6	8.7	N.A.	-23.7	-1.0	-5.5	19.6	-6.1
Newport News - Hampton	14.2	-33.7	10.7	11.7	6.5	-2.6	[5.4	9.4	24.8	12.6
Norfolk - Va. Beach - Portsmouth	11.0	34.2	9.3	17.6	10.5	-4.5		-2.7	18.8	9.7
Petersburg	12.8	-29.5	-62.6	N.A.	-14.8	-6.6	[1.8	-2.2	33.5	4.3
Richmond	6.9	1.2	175.0	9.3	-0.4	4.4		3.6	10.5	-5.6
Roanoke	1.2	-24.7	123.0	11.2	3.1	-1.0	5.5	-10.2	1.8	-6.4
Staunton	-6.2	7.2	66.6	N.A.	-11.7	-11.7	N.A.	N.A.	-2.6	-2.2
Williamsburg	11.2	-22.0	-22.8	18.4	N.A.	17.1	N.A.	-13.2	14.9	35.6
Winchester	2.5	2.3	-58.2	2.8	-0.5	-2.3	N.A.	1.6	5.2	14.7

TABLE III

Percentage Change January - February from same period last year

CITY	CITY INDEX*	BANK DEBITS*	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	JAN.-DEC. NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	JAN.-DEC. RETAIL SALES‡
The State		3.2	9.9	3.5	6.9	4.9	5.4	1.5	13.4	17.5
Alexandria	11.8	-11.5	239.1	4.2	N.A.	-1.9	9.8	7.7	20.3	21.4
Bristol	10.4	-22.4	-30.2	-1.4	7.5	-14.4	4.8	2.8	26.1	12.4
Cape Charles - Exmore	-5.5	-14.1	-34.8	N.A.	N.A.	-15.6	N.A.	-2.5	-3.2	12.7
Charlottesville	0.4	8.9	-89.6	3.8	N.A.	-0.3	5.1	-4.1	1.0	16.0
Danville	-1.7	N.A.	-74.8	-0.6	8.4	-16.0	1.0	5.9	-3.1	15.1
Franklin	6.5	N.A.	210.7	4.8	-0.6	10.3	N.A.	1.3	9.8	25.9
Fredericksburg	2.2	-1.4	21.8	N.A.	10.5	9.6	N.A.	-4.7	-0.8	38.6
Harrisonburg	2.4	118.0	-34.9	N.A.	3.1	21.7	N.A.	2.0	-4.2	18.4
Lynchburg	9.4	-19.6	-22.0	-1.0	N.A.	-6.9	4.5	-10.7	25.0	16.9
Newport News - Hampton	17.1	-14.9	32.6	4.3	9.3	-4.9	4.7	8.9	34.1	11.0
Norfolk - Va. Beach - Portsmouth	14.0	43.7	-13.2	5.2	11.7	1.0	5.4	-1.5	27.2	15.9
Petersburg	15.0	-19.9	-24.8	N.A.	-11.7	-11.4	1.4	-3.5	38.9	13.6
Richmond	7.5	0.7	155.7	3.4	1.7	-3.8	3.3	4.3	15.7	16.1
Roanoke	3.3	-6.1	56.7	3.1	10.1	2.6	4.6	-8.0	5.2	16.8
Staunton	-3.5	13.5	-55.9	N.A.	-8.2	-4.7	N.A.	N.A.	-1.5	6.4
Williamsburg	3.7	-19.5	50.6	5.8	N.A.	-9.4	N.A.	-12.1	12.7	18.2
Winchester	-1.7	8.7	-36.2	-1.4	7.2	-4.3	N.A.	-2.5	-3.6	21.9

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits and Bank Debits, which are excluded because of their highly erratic nature.
#Virginia Employment Commission data which lags behind current reports.
†Preliminary data based on a survey sample.
‡Revised data based on sales tax information which lags behind current reports.
[ ]Only total MSA data are available for these areas.

The biggest surprise was in the other series we report with a one-month lag, taxable retail sales. In January (published in the February issue) our sample of retail stores reported substantial gains over the preceding January. The sample groups in nine of the urban areas achieved double-digit growth. Only in three of the seventeen areas was there a decline from last January. Now we have the Virginia Department of Taxation's January figures on total sales subject to Virginia's Sales and Use Tax, and their percent changes are shown in the last column of Table II. Their data indicate that taxable sales declined in ten of the seventeen areas compared to last January, and the Statewide increase was only 0.8 percent. Those results occurred concurrently with the high employment growth in trade and services cited above. Obviously some establishments did very well in January, while many others had a disappointing month. What was the pattern? We have no conclusive answers. One partial explanation is our sample's emphasis on establishments selling nondurable goods and services, types of products for which the outlook is continued strong demand growth, as opposed to the heavier weighting on durable goods in the taxable sales data, types of goods where demand is expected to grow less rapidly than last year. That explantion gets some support from the February new car sales data. The February increase was 6.3 percent Statewide, with declines in 12 of the 17 urban areas compared to the same period last year. However, a temporary decline in durable goods demand should not by itself cause such wide differences between the January sample results and Department of Taxation figures. Other possibilities include fluctuations in the demand for business equipment and building materials, which are categories in the taxable sales data but not our sample. But, weak demand for building materials seems inconsistent with the high level of construction employment. A comprehensive review of what happened will have to wait until the full first quarter taxable sales report by type of business is available. Until then, all we can be sure of is the establishments in our sample fared much better in January than the overall retail sector.

For February, the Bureau's retail sample showed considerably less growth, 7.1 percent overall, than the 20.3 percent January growth rate. In the February issue we said we expected the growth rate to decline by about one-half. The somewhat larger drop in the growth rate for one month is not out of line, although the fact that six of the seventeen areas reported sales below last February is a disappointment.

In sum, the data reported this month contained several surprises, some pleasant and some not so pleasant. The employment and construction data were above expectations, while the retail sales results fell below expectations with no satisfactory explanation. The next couple of months will show whether the data were merely the result of erratic movements which often occur in the short term as the economy moves to lower growth rates. However the short-term volatility displayed so far does not weaken the Bureau's confidence in the longer-term outlook for Virginia, described in the second article in this issue. In spite of the surprises, the cumulative results in Table III generally reinforce our favorable outlook for the Commonwealth for 1985 and 1986. RLP

Virginia in 1985 and 1986

1984 was a great year for Virginia. So great that many estimated 1984 values for key variables were wrong at yearend. They were **too low.**

Adjusting the 1984 numbers upward does more than give a higher base for forecasting 1985 and 1986. The adjustments also change the amount of growth and type of growth to expect, especially for 1985. Let us look at some specifics.

The Virginia Employment Commission's February benchmark revisions for nonagricultural payroll employment were reported in detail in our February issue. A summary of the State performance in 1983 and 1984 is reported in Table IV. The average level for 1984 was 2,325,000 payroll workers, an increase of 5.4 percent in 1984. That is 2 percent higher, or over 45,000 more workers, than one of the State models projected in November. So, we find there was much more job growth in 1984 than many people thought just four months ago. And, that growth rate was the highest since 1973's 5.9 percent. The higher employment growth in 1984 has many ramifications affecting 1985 and beyond. First and foremost, the 5.4 percent growth **definitely** was above the limit that could be met by Virginia's existing population, even with a reasonable increase in the labor force participation rate. Therefore in 1984 there had to be a substantial inmigration of people to fill many of the jobs available here. We will not know for some time just how many new Virginians we did get in 1984. Our eclectic view is a net of 90,000 to over 120,000 persons moved to Virginia in 1984. If correct, that means total population growth in 1984 was between 2.4 and 3 percent. Such a growth rate is at least **twice** the 1.2 percent estimated growth in 1983, with **two-thirds** or more of the growth resulting from net inmigration.

Some of the new Virginians filled jobs here, but they also caused part of the high job growth. They demanded housing, and they increased the demand for everything from food to furniture as well as personal and professional services. So, they were responsible for part of the high job growth in construction, trade, and services.

The high job growth and inmigration in 1984 means the earlier estimates of total Virginia resident personal income also were too low. And, they will remain too low until tax return data can be analyzed which show the full wage and salary income and the extent of the imported non-wage income. Remember the new Virginians brought income-earning assets and entitlements with them, which now will be counted as Virginia personal income.

Table V shows the Bureau's current estimates of Virginia's 1984 personal income. Our judgmental estimate is Virginia personal income probably was about $75.1 billion in 1984, making the increase from 1983 almost 12 percent, a higher growth rate than the U.S. Bureau of Economic Analysis data through the third quarter imply.

So, we appear to have had higher job growth, much larger net inmigration, and higher total personal income in Virginia in 1984 than was expected. Our higher estimates offer a logical explanation for part of the very high demand growth in Virginia's metropolitan areas, especially in Northern Virginia.

The upward revision of the 1984 data also has a strong impact on the level of employment and income expected in 1985 and 1986. The Bureau's predictions for the State in 1985 and 1986 are given in Tables IV and V. The 1984 momentum definitely will carry over to 1985 and well into 1986, but with lower growth rates than in 1984. The surges in 1984, particularly in industries such as construction, will begin to run their course. Virginia personal income should increase by almost 9 percent from our 1984 estimate, bringing the total to about $81.8 billion in current dollars.

For 1986, we predict Virginia's income growth also will be strong, reaching $88.7 billion in current dollars, an 8.4 percent gain. That projection rests on the ripple effects still at work in Virginia plus an optimistic national outlook. So, the Bureau looks for two more strong years in Virginia. Years with decelerating growth more in the line with the national pace, but still very substantial gains. For each year, these predicted Virginia growth rates for personal income are about 1.0% higher than the current consensus on the national growth rates (8.9% vs 7.8% in 1985; 8.4% vs 7.5% in 1986).

What about the employment growth? The Bureau's projected levels and growth rates are shown in Table IV. The 1984 performance and continued growth will leave us with substantially higher **levels** of employment in 1985 and 1986. Higher in total, higher in manufacturing, and higher in nonmanufacturing. However, the employment projections show growth rates for both 1985 and 1986 which are less than one-half of the actual rate in 1984. That implies the inmigration surge will not be sustained, at least not by 20-45 year olds moving here to accept jobs.

The employment levels in Table IV do indicate a slightly higher concentration of employment in nonmanufacturing in 1985 and 1986. Nonmanufacturing is projected to rise from 81.9 percent of total nonagricultural employment in 1984 to 82.2 percent in 1986, mainly in response to the higher trade, service, and local government demands of a larger resident population. However, the Bureau's forecasts do include a 30,200 increase in manufacturing jobs between 1983 and 1986. Manufacturing employment has been growing and will continue to grow in Virginia. But, like the nation, that growth will be overshadowed by employment growth in nonmanufacturing. The strongest nonmanufacturing growth here will be in trade and services, just as at the national level.

Which metropolitan areas of the commonwealth will fare the best? We will offer our best "guestimates." Northern Virginia truly is on a roll, and we do not foresee any reasons why it will not continue to dominate in industrial, commercial, and residential growth. The Norfolk-Virginia Beach-Newport News Metropolitan Statistical Area (MSA) also will maintain strong growth, based mainly on private, not government, growth. If these areas were public corporations, they definitely would be labeled as blue chip growth stocks. As somewhat riskier growth investments, you have Lynchburg and Roanoke. Both have the diversity and momentum to remain growth centers for the next two years. Those four areas are likely to be the leaders among the State's eight MSAs.

The Charlottesville and Bristol MSAs should realize moderate growth. The Richmond-Petersburg MSA also should achieve satisfying growth, bolstered by a turnaround in the Peterburg area's performance. The only real question mark seems to be the Danville MSA. Their industrial mix remains quite vulnerable to foreign competition, making it more difficult to regain upward momentum. In general, the Bureau's outlook for Virginia is for two more years of sustained growth, with nearly all of the State sharing in this prosperity.

RLP

Table IV

Virginia Nonagricultural Employment
March 1985 Estimates
Bureau of Business Research

Year	Total (000)	Per. Chg.	Manu. (000)	Per. Chg.	Nonmanu. (000)	Per Chg.
1983 Actual	2,206.9	2.8%	403.6	1.6%	1.803.3	3.1%
1984 Actual	2,325.0	5.4	420.1	4.1	1,904.9	5.6
1985 Est.	2,383.7	2.5	427.6	1.8	1,956.1	2.7
1986 Est.	2,436.8	2.2	433.8	1.4	2,003.0	2.4

Table V

Virginia Resident Personal Income
March 1985 Estimates
Bureau of Business Research

Year	$ Billion	Percent Change from Preceding Year
1983 Actual	$67.2	8.0%
1984 Est.	75.1	11.8
1985 Est.	81.8	8.9
1986 Est.	88.7	8.4

Prepared by the Bureau of Business Research
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5/6/85 U1120-1A

VIRGINIA BUSINESS REPORT

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 298 April, 1985

Business in Virginia March, 1985 Data

Last month the Virginia data were full of surprises. This month most of the information was about what we expected. That is good news for two reasons. First, repeated shocks are most disconcerting, to all Virginians as well as economists who are trying to develop some perspective on what is happening in the Commonwealth. More importantly, the reports released in April showing the recent national economic performance have been a steady stream of surprises, mainly unpleasant. The fact that the recent Virginia results did not mirror the national developments is a tribute to the strength and self-sustaining momentum we have observed in the State's economy. We still will have the normal month-to-month fluctuations, often quite large, which are to be expected during a maturing expansion. But, the Commonwealth still generally is outperforming the nation and can be expected to continue to do so.

State nonagricultural data for February, the latest available, showed a 4.8 percent gain over February, 1984. That is a slower growth rate than the 5.4 percent rate in January, and the growth rate will continue to move lower during the rest of the year. However, Virginia's cumulative gain for January and February was 5.0 percent, far surpassing the national growth of less than three percent.

The retail sales data continue to indicate fluctuations in the types of goods being demanded and wide month-to-month variations in individual metropolitan areas. However, the Statewide relationships are beginning to display more logical patterns. Taxable retail sales in Virginia increased 11.1 percent in February compared to the same month last year. Such a gain was a normal rebound from the very low growth, .8 percent, in January. The February taxable sales gain also was larger than the February Statewide increase of 7.1 percent in our retail sales sample. That, too, is a more logical relationship, since the taxable sales data include all retail businesses, new and old, while our sample contains the same number of retail businesses in each period. The March growth rate for the Bureau's sample was 2.5 percent, a drop from the strong February gain and parallel to the national slowing of retail spending.

The national retail sales figures most comparable to our two series are retail sales excluding the automotive group, not adjusted for seasonal variations and trading-day differences. The cumulative national growth year-over-year in this measure was 3 percent for January-February and January-March. In contrast, Virginia's taxable sales grew by a cumulative 5.8 percent for January-February; and the Bureau sample, by 8.5 percent for January-March. Both Virginia data series indicate retail trade in Virginia in 1985 has been growing at about twice the national pace, or better.

New car registrations in March rebounded to double-digit growth, 15.0 percent, after declining to a 6.3 percent pace in January. Look for this growth rate to decline again in the coming months to a more sustainable pace. Building permit growth continued to slow, down to 3.4 percent in March compared to the very high levels of last year. Construction activity remains strong even at the lower growth rate. Overall, the Commonwealth's economy remains in more robust health than the national economy.

For the individual metropolitan areas, the cumulative percent changes in Table III are the most appropriate data to review, since they average out some of the recent large month-to-month fluctuations. Northern Virginia (labeled the Alexandria area in the table) has been the definite leader in employment growth, and very strong across nearly all the indicators. The Greater Fredericksburg area also has continued to show substantial cumulative gains in most categories. The Tidewater region, both the Newport News-Hampton and Norfolk-Portsmouth-Virginia Beach areas, has maintained its strong growth in 1985. So far, these are the most consistent leaders. RLP

Chart I

Nine Selected Business & Economic Indicators Percentage Change

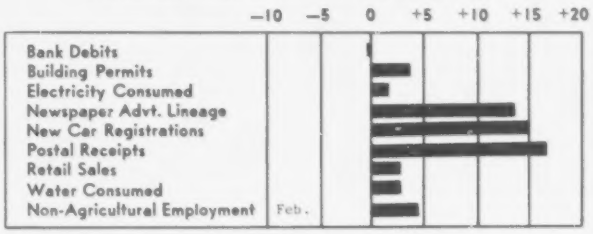
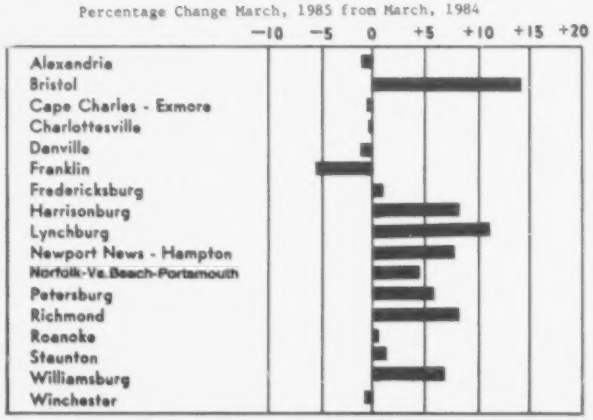


Chart II

City Indices



SELECTED BUSINESS AND ECONOMIC INDICATORS FOR 17 CITIES

TABLE I March, 1985

Monthly Index Number Comparisons of Current Month to Same Month in Base Period (1977) - Base Period = 100

CITY	CITY INDEX*	BANK DEBITS*	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWSPAPER ADV LINAGE	NEW CAR REGISTRATIONS	FEBRUARY NON AGRICULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES +	POSTAL RECEIPTS
The State		288.8	221.9	128.9	100.2	263.5	340.8	84.9	178.6	123.2
Alexandria	126.9	219.8	657.1	132.1	N.A.	87.1	157.9	94.5	149.2	N.A.
Bristol	148.7	29.0	117.9	116.4	78.8	65.1	104.7	89.1	179.8	300.9
Cape Charles - Exmore	118.0	61.2	137.1	110.9	N.A.	61.8	N.A.	N.A.	111.2	201.5
Charlottesville	162.5	345.1	150.8	120.5	N.A.	86.2	103.7	105.9	169.8	322.3
Danville	97.5	N.A.	95.8	96.8	126.9	73.8	98.0	81.8	45.3	264,6
Franklin	123.2	N.A.	416.6	107.8	128.8	68.9	N.A.	89.1	109.4	262.4
Fredericksburg	181.7	79.3	178.8	N.A.	146.9	129.1	N.A.	56.9	179.7	399.6
Harrisonburg	152.0	40.4	641.0	N.A.	136.7	74.7	N.A.	113.7	158.1	264.9
Lynchburg	249.6	376.9	164.3	117.6	N.A.	79.1	94.7	104.2	164.7	952.4
Newport News - Hampton	106.0	167.7	295.3	115.3	93.2	67.5	123.3]	120.9	115.0	N.A.
Norfolk - Va. Beach - Portsmouth	132.8	278.2	257.4	143.1	102.8	78.2		69.7	178.5	N.A.
Petersburg	117.7	107.2	77.4	N.A.	44.1	40.5	114.6]	91.0	134.0	246.1
Richmond	134.5	297.2	310.7	143.2	122.6	84.4		99.4	115.0	281.0
Roanoke	148.9	455.0	132.3	106.9	148.4	57.0	110.1	92.9	162.5	298.3
Staunton	121.7	113.2	685.0	N.A.	81.9	69.7	N.A.	N.A.	112.5	241.3
Williamsburg	148.7	129.4	356.5	151.1	N.A.	83.9	N.A.	72.1	132.1	337.6
Winchester	149.6	240.7	53.4	129.0	N.A.	90.5	N.A.	124.9	111.7	367.7

TABLE II March, 1985

Percentage Change from same month last year

CITY	CITY INDEX*	BANK DEBITS*	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWSPAPER ADV LINAGE	NEW CAR REGISTRATIONS	FEBRUARY NON AGRICULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES +	FEB. RETAIL SALES ‡
The State		-0.1	3.4	1.3	13.8	15.0	4.8	2.5	2.5	11.1
Alexandria	-1.1	-6.2	-17.9	0.1	N.A.	-0.3	8.8	7.6	-4.7	11.9
Bristol	14.2	-11.5	41.2	-0.7	2.9	-10.9	4.7	18.0	30.1	1.6
Cape Charles - Exmore	-0.5	-42.7	-55.1	1.7	N.A.	-11.6	N.A.	2.1	1.6	4.0
Charlottesville	-0.1	19.9	-33.8	-1.8	N.A.	2.3	5.5	1.8	-1.0	8.5
Danville	-1.7	N.A.	-49.0	-8.8	24.5	-15.6	2.1	5.8	-5.9	-3.8
Franklin	-5.6	N.A.	619.4	-5.8	-2.4	-25.0	N.A.	2.6	-2.8	44.8
Fredericksburg	1.5	-1.9	70.1	N.A.	9.4	12.9	N.A.	3.3	-5.8	53.9
Harrisonburg	8.0	-61.8	54.2	N.A.	14.9	40.4	N.A.	2.6	-3.3	2.3
Lynchburg	11.3	-7.1	-14.1	-2.9	N.A.	15.1	1.9	2.3	17.8	-3.1
Newport News - Hampton	7.9	-17.5	24.0	2.5	14.9	-2.8	5.0]	12.2	9.6	13.0
Norfolk - Va. Beach - Portsmouth	4.7	7.7	12.6	5.4	17.4	-0.2		-8.3	6.3	15.8
Petersburg	5.6	-2.8	6.8	N.A.	-1.4	-19.4	1.8]	2.7	17.2	10.2
Richmond	7.7	-0.8	5.7	2.4	13.8	9.8		10.9	5.6	18.0
Roanoke	0.2	2.2	88.8	1.9	10.2	-3.4	5.5	-9.3	0.6	-4.3
Staunton	1.6	13.2	1295.4	N.A.	8.9	15.6	N.A.	N.A.	-5.5	28.3
Williamsburg	6.8	-26.9	-51.0	5.0	N.A.	-2.9	N.A.	-10.4	16.4	47.6
Winchester	-0.5	12.5	8.0	0.0	N.A.	3.4	N.A.	-3.7	-0.9	6.8

TABLE III

Percentage Change January - March from same period last year

CITY	CITY INDEX*	BANK DEBITS*	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWSPAPER ADV LINAGE	NEW CAR REGISTRATIONS	JAN.-FEB. NON AGRICULTURAL EMPLOYMENT #	WATER CONSUMED	RETAIL SALES +	JAN.-FEB. RETAIL SALES‡
The State		2.1	7.2	2.8	9.4	-1.0	5.0	1.8	8.5	5.8
Alexandria	5.4	-9.9	79.3	3.0	N.A.	-1.5	10.1	7.7	7.7	8.9
Bristol	11.5	-19.0	-0.1	-1.2	5.7	-13.4	3.5	7.2	27.4	-4.7
Cape Charles - Exmore	-3.6	-26.2	-45.5	-1.9	N.A.	-14.4	N.A.	-1.1	-1.3	0.1
Charlottesville	0.2	12.3	-84.1	2.1	N.A.	0.4	5.9	-2.1	0.3	-13.1
Danville	-1.6	N.A.	-71.3	-3.3	14.4	-15.9	1.4	5.9	-4.2	-6.3
Franklin	2.1	N.A.	424.7	1.6	-1.3	-1.2	N.A.	1.7	4.7	-9.8
Fredericksburg	1.5	-1.6	46.1	N.A.	10.1	10.5	N.A.	-2.1	-3.1	11.8
Harrisonburg	4.1	5.4	24.3	N.A.	7.7	26.4	N.A.	2.2	-3.9	6.0
Lynchburg	9.4	-15.1	-17.0	-1.6	N.A.	-1.2	0.3	-6.7	22.0	-4.7
Newport News - Hampton	12.6	-15.8	29.1	3.8	11.5	-4.3	5.1]	10.0	22.4	12.8
Norfolk - Va. Beach - Portsmouth	9.4	29.6	-3.9	5.2	13.8	0.7		-5.8	16.7	12.6
Petersburg	9.8	-14.9	-17.7	N.A.	-8.2	-13.3	0.9]	-1.4	27.3	7.1
Richmond	6.8	0.2	51.8	3.1	5.9	-0.3		6.5	10.9	5.1
Roanoke	2.2	-3.5	71.5	2.7	10.1	1.1	5.5	-8.4	3.4	-5.3
Staunton	-2.2	13.4	286.8	N.A.	-2.2	0.6	N.A.	N.A.	-3.1	11.8
Williamsburg	4.6	-22.1	-21.3	5.6	N.A.	-7.7	N.A.	-11.5	13.8	41.2
Winchester	-2.1	10.0	-20.1	-1.0	N.A.	-2.2	N.A.	-2.9	-2.2	10.9

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits and Bank Debits, which are excluded because of their highly erratic nature.

#Virginia Employment Commission data which lags behind current reports.

+Preliminary data based on a survey sample.

‡Revised data based on sales tax information which lags behind current reports.

] Only total MSA data are available for these areas.

The Current Plight of National Demand and Output

On April 18 the Department of Commerce shocked forecasters as well as the public with the report that preliminary estimates showed our nation's real output grew at a meager 1.3 percent annual rate in the first quarter, the lowest rate in any quarter since the recovery began at the end of 1982. What happened? Can we do better? What changes will insure we actually do better? This month's commentary provides one perspective and our views on some of the elements. A summary of the first quarter data is given in Table IV, along with the comparable fourth quarter data. All of the amounts are stated in 1972 dollars to remove the effects of inflation, and our analysis of levels and growth rates is entirely in real, or inflation-adjusted terms: real output, real demand, and real growth.

In the November, 1984 issue we stated, "The nation not only will have the demand, but also the production capacity and monetary growth to achieve an annual rate of growth of 4 percent in the first half of 1985." That statement was true in the first quarter and will remain true in the second. Most importantly, the *demand* existed in the first quarter. Total domestic demand consists of personal consumption demand, business investment in plant and equipment (non-residential fixed investment), demand for new housing (residential fixed investment), additions to business inventories, and government demand for goods and services. As shown in Table IV, the total domestic demand grew at a 4.4 percent annual rate in the first quarter, more than sufficient to produce a 4.0 percent annual growth rate for real output. But, domestic demand is our demand for *all* goods and services, not just goods and services produced in the United States. Every one of those demand components includes some purchases of imported goods or services. While domestic demand increased by $18.3 billion (in 1972 dollars), the inflation adjusted level of imports rose $9.6 billion in the first quarter. Therefore 52.5 percent of the increased real domestic demand was satisfied by higher quantities of imports. That was the leak, or for many industries the flood, which meant high domestic demand growth did not produce comparable growth in U.S. output. Of course, the nation's industries also produce to meet foreign demand, not just domestic demand. If real exports (1972 dollars) had risen by $9.6 billion, offsetting the higher imports, our output would have grown at a 4.5 percent annual rate in the first quarter. Instead, real exports fell by $3.1 billion. The combined effect was that exports minus imports, or net exports, fell by $12.7 billion. Therefore an $18.3 billion real increase in domestic demand was accompanied by only a $5.6 billion increase in U.S. output, the Gross National Product (GNP), measured in 1972 dollars. Translated into annual growth rates, that meant our real GNP growth rate was over 3 percent below what it could have been.

Can U.S. output growth improve in the second quarter? Domestic demand will continue to grow in real terms at a 4 to 4.5 percent annual rate. Consumer demand grew by 4.7 percent in the first quarter, in spite of the March decline. That decline was the result of February and March decreases in disposable personal income caused by the much-publicized delays in Federal tax refunds. If the refunds had been on schedule, the real (inflation-adjusted) disposable income in March would have shown an increase. Those refunds *are* coming; plus, all other categories of personal income still are rising except for farm income and unemployment receipts. With rising income, healthy consumer demand growth still will be our major strength in the second quarter. Housing expenditures in real terms also will increase. As Table IV shows, the residential fixed investment was basically unchanged from the fourth quarter 1984 to the first quarter of this year. However, building permits and housing starts have been growing, which means higher construction expenditures will occur in the second quarter. With substantial consumption and housing construction growth plus only minimal growth among the other three domestic demand categories, business fixed and inventory investment and government purchases, real domestic demand would increase by $18 billion in the second quarter, a 4.3 percent annual growth rate.

If net exports remain at their first quarter *level* of -$26.1 billion, then the U.S. output also would increase by $18 billion. That means an annual rate of growth in real GNP of 4.4 percent. On the other hand, a continued decline in net exports to a level of -$30.1 billion would drain one percentage point from the real growth rate, lowering it to 3.4 percent. What will happen to net exports? The value of the dollar is declining modestly, and our companies are fighting hard to stem the tide of foreign gains. Our view is the real value of net exports will not reach -$30 billion, leaving the prospect open for real growth in U.S. output of 4-4.5 percent in the second quarter.

What is necessary to remove the net export wedge between domestic demand and U.S. production? Many industries have been severely hurt, but for the nation the tide will turn as foreign nations grow more rapidly and the U.S. dollar moves to an appropriate value. Fair trade policies always are desirable. But, not closed door policies — in the long run they would shut foreign markets to us and reduce growth. For now, *minimal* voluntary action by the public — consumers, businesses, and government — would eliminate the problem. Review the first quarter numbers. Real domestic demand was $1,694.1 billion. One percent of that amount is $17 billion. Suppose the public cooperated with a "Buy American" policy of consciously trying to increase their U.S.-made purchases by only *one percent* of their total spending? For a family spending $20,000 a year, that would mean mentally setting aside a fund of $200. Then, when they are making their normal purchases and are about to buy foreign products, occasionally they would stop and decide "no, I will buy a U.S.-made one instead." If they continue over the year to make such choices until they reach the $200 goal, they will have achieved the one percent target with only a minimal personal sacrifice on their part. Business and government could adopt a similar policy even more easily. Set a goal of one percent of total expenditures. Then, as purchases of foreign products are considered, shift the purchase to U.S. products until the goal is met. Not everyone would be willing or able to cooperate. But, suppose the one percent goal was only three-fourths met? For the first quarter of 1985, one percent of real domestic demand was $17 billion, so three-fourths of one percent would have been $12.7 billion. A reduction of $12.7 billion in real imports would have left the net export figure *unchanged* from the fourth quarter at -$13.4 and U.S. real output would have been $12.7 billion higher. The annual rate of growth in real GNP would have been 4.5 percent. Therefore, a voluntary attempt to spend only *one percent* more on U.S. goods and services, even if it was only *partly* successful, would have insured U.S. output growth at a 4 percent or better annual rate in the first quarter. Broad acceptance of the attitude, "one percent more for the U.S.A.," would be sufficient to contain, and then reverse, the foreign trade problem over the course of the year. At the same time it would give the nation the opportunity to grow at a sufficient rate to yield high job growth and falling unemployment.

RLP

TABLE IV

Gross National Product and Demand in 1972 Dollars
(Billions of 1972 Dollars; Quarterly Data are Seasonally Adjusted Annual Rates)

	Fourth Quarter 1984	First Quarter 1985	Percent Change, Annual Rate
Gross National Product	$1,662.4	$1,668.0	1.3%
Personal Consumption Expenditures	1,075.4	1,087.9	4.7
Investment:			
Nonresidential Fixed Investment	213.8	215.6	3.4
Residential Fixed Investment	59.2	59.1	-.7
Change in Business Inventories	16.8	20.7	*
Government Purchases of Goods and Services	310.5	310.6	.1
Net Exports of Goods and Services	-13.4	-26.1	*
Domestic Demand			
Gross National Product	$1,662.4	$1,668.0	1.3%
Less: Net Exports	+ 13.4	+ 26.1	
Equals: Domestic Demand	$1,675.8	$1,694.1	4.4%

* Percent Changes are omitted since Change in Business Inventories and Net Exports are both net measures. Their growth rates are not comparable to those for the other categories, which are all gross measures.

The Virginia Business Report is published monthly except in December by the Bureau of Business Research. The publication is provided free of charge as a public service. For information call the Bureau at (804) 253-4493.

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WILLIAMSBURG, VIRGINIA 23185

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6/11/85 41120-1A

VIRGINIA BUSINESS REPORT

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 299 May, 1985

Business in Virginia April, 1985 Data

The Virginia economy continues to climb steadily, clearly outdistancing the national economy. The heart of the State's well-being, employment, provides a good example. Nonagricultural employment Statewide in March was 4.7 percent above March 1984, while the national increase was 3.7 percent. For the first quarter our year-over-year growth was 4.9 percent versus 3.8 percent for the nation. The star sector remains wholesale and retail trade. There Virginia's growth in March was 6.4 percent, almost 32,000 more employees than last March, compared to a national gain of 4.8 percent. The same pattern holds true for the whole first quarter: Virginia trade employment growth was 6.8 percent versus 4.8 percent nationwide.

Employment growth has been weaker than expected in manufacturing, largely because of the first quarter surge in imports discussed in last month's issue. U.S. demand grew as expected by over 4 percent, but better than half of the increase in demand was satisfied by purchasing imports. The Commonwealth's manufacturing employment grew by .3 percent in March, with 1,200 more jobs than March 1984. That compares unfavorably to a 1.3 percent March increase in the nation's manufacturing employment. A longer term comparison is more encouraging. In 1984, Virginia's manufacturing employment was 14.7 percent above its 1981 high, while the national level was 2.9 percent below 1981. Therefore a State growth rate somewhat below the national rate in 1985 still would indicate better health in that sector here than nationally. For some of our industries, however, that is not much consolation. To tell a hospital patient that he is healthier than the person in the next bed doesn't stop the pain.

The stellar employment performance in wholesale and retail trade is more than matched by retail sales. Statewide Taxable sales growth rebounded to 13.5 percent in March, while a comparable measure of national retail sales was only 3.6 percent higher than March 1984. For April, the Bureau's sample of Virginia retailers reported a 6.5 percent gain while advance national figures for retail sales (excluding the automobile group) showed only a 4.0 percent growth. Our retail sales growth continues to reflect the above-average growth of income, employment, and population in Virginia. Still very much a "bootstrap" effect, with Virginians, both long-time residents and new ones, increasing their purchases at Virginia businesses. Plus there is the added bonus of tourist spending. The reports so far indicate a strong gain in Virginia tourism for 1985. On the other hand, the local demand growth for automobiles appears to have resumed its easing trend after the surge in March. The April gain in new car registrations was 6.4 percent, down from the 15.0 percent reported in March, and in line with February's 6.3 percent rate.

Lower interest rates and the general economic health also appear to be reigniting construction growth in Virginia. Building permits in April were up 33.3 percent compared to last year, and for eight of the individual areas covered the gains were over 100 percent. Plus, the Virginia Association of Realtors reported May 23 that "Virginia home sales rose 8.7 percent in April, 1985, compared to sales one year ago," and home sales activity for 1985 to date has exceeded the record pace in the first four months of 1984. Another welcome sign of present and future economic strength.

To gauge the present economic momentum of individual urban areas, two appropriate indicators are the growth rates in nonagricultural employment and retail sales. Compare those to the national rates to see if the specific area, like the State, is outpacing the nation. As shown in Table II, the March nonagricultural employment growth exceeded

Chart I

Nine Selected Business & Economic Indicators Percentage Change

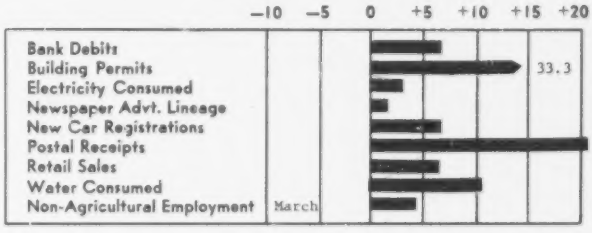
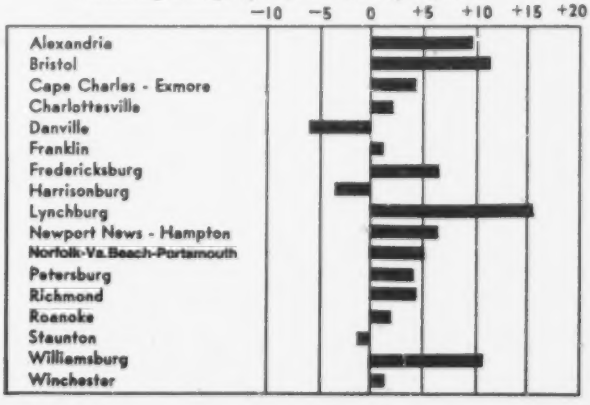


Chart II

City Indices



SELECTED BUSINESS AND ECONOMIC INDICATORS FOR 17 CITIES

TABLE I April, 1985

Monthly Index Number Comparisons of Current Month to Same Month in Base Period (1977) - Base Period = 100

CITY	CITY INDEX*	BANK DEBITS*	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	MARCH NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	POSTAL RECEIPTS
The State		287.5	231.9	119.7	101.7	256.0	314.6	89.5	146.5	124.4
Alexandria	149.4	238.5	410.3	121.7	N.A.	109.1	158.9	96.7	189.6	N.A.
Bristol	146.5	29.7	479.4	102.5	80.7	90.5	105.1	88.5	168.0	305.7
Cape Charles - Exmore	125.4	72.2	651.8	106.3	N.A.	88.6	N.A.	N.A.	120.9	194.8
Charlottesville	194.3	387.9	286.1	107.0	N.A.	118.8	104.2	119.2	231.7	320.1
Danville	130.3	N.A.	176.1	97.3	118.2	82.2	98.0	89.7	130.2	264.5
Franklin	137.7	N.A.	136.5	97.9	116.7	96.7	N.A.	95.0	137.4	268.9
Fredericksburg	204.8	95.3	322.8	N.A.	146.5	147.4	N.A.	62.6	212.7	439.0
Harrisonburg	154.7	38.9	465.4	N.A.	145.2	83.3	N.A.	129.3	144.3	292.3
Lynchburg	164.5	381.5	468.1	112.1	N.A.	118.6	95.3	125.4	171.6	643.6
Newport News - Hampton	125.5	N.A.	230.5	105.4	84.7	91.8	124.7	123.7	157.6	N.A.
Norfolk - Va. Beach - Portsmouth	171.4	287.2	266.6	131.0	90.6	109.2		68.6	266.9	N.A.
Petersburg	128.1	108.2	85.4	N.A.	39.0	63.3	115.3	95.0	158.6	223.7
Richmond	155.4	298.1	585.5	134.7	114.6	116.0		109.6	163.9	276.6
Roanoke	160.3	480.9	122.4	100.5	141.2	89.7	111.0	96.7	189.1	286.7
Staunton	126.6	138.5	65.3	N.A.	80.3	98.3	N.A.	N.A.	113.3	241.1
Williamsburg	168.7	164.1	150.2	144.0	N.A.	132.2	N.A.	99.8	133.6	404.4
Winchester	135.9	283.5	132.3	125.6	209.9	113.6	N.A.	119.6	N.A.	382.6

TABLE II April, 1985

Percentage Change from same month last year.

CITY	CITY INDEX*	BANK DEBITS*	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	MARCH NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	MAR. RETAIL SALES ‡
The State		6.2	33.3	2.6	1.5	6.4	4.7	10.2	6.4	13.5
Alexandria	9.6	-2.9	120.8	4.2	N.A.	-10.4	8.3	16.0	15.3	18.9
Bristol	11.8	-21.9	460.1	-5.0	10.1	9.6	4.0	1.3	22.1	9.6
Cape Charles - Exmore	4.5	-39.5	78.0	4.1	N.A.	11.2	N.A.	7.9	1.2	10.3
Charlottesville	2.1	20.1	86.2	-4.1	N.A.	-8.1	4.4	16.2	2.8	-0.5
Danville	-6.1	N.A.	122.4	-4.4	1.5	-6.0	1.5	1.6	-11.7	8.9
Franklin	1.6	N.A.	1836.8	-1.9	3.5	-19.2	N.A.	0.9	9.3	103.0
Fredericksburg	6.7	12.4	374.9	N.A.	7.6	-9.5	N.A.	14.6	9.1	26.2
Harrisonburg	-3.0	-17.6	-42.9	N.A.	17.2	2.0	N.A.	7.0	-14.8	0.4
Lynchburg	15.2	-0.3	143.3	-1.3	N.A.	18.6	2.1	26.6	15.8	14.9
Newport News - Hampton	6.7	39.6	23.2	-0.1	1.1	8.2	4.8	23.1	4.9	8.0
Norfolk - Va. Beach - Portsmouth	5.0	14.1	-1.4	3.9	5.1	7.1		-5.8	8.2	12.0
Petersburg	4.3	9.4	2308.6	N.A.	-18.9	-12.3	1.7	12.5	14.9	11.2
Richmond	4.3	-2.4	305.7	4.3	-3.2	-4.6		23.1	3.5	17.1
Roanoke	2.1	49.0	52.9	3.7	-5.4	7.4	5.0	-1.9	3.6	13.8
Staunton	-1.3	24.2	-42.8	N.A.	-10.9	9.4	N.A.	N.A.	-1.6	4.5
Williamsburg	10.4	-8.3	4.4	4.8	N.A.	30.0	N.A.	13.8	4.6	24.7
Winchester	1.5	22.0	-22.2	4.0	15.6	-10.7	N.A.	-2.9	N.A.	-7.0

TABLE III

Percentage Change January - April from same period last year

CITY	CITY INDEX*	BANK DEBITS*	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	JAN.-MAR. NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	JAN.-MAR. RETAIL SALES‡
The State		3.1	12.1	2.8	7.5	7.8	4.9	3.9	7.9	8.5
Alexandria	6.6	-8.1	84.6	3.2	N.A.	-4.0	9.6	10.2	10.0	12.4
Bristol	11.6	-19.8	138.7	-2.0	6.9	-7.7	3.4	5.7	26.0	0.2
Cape Charles - Exmore	-1.5	-30.4	2.3	-0.1	N.A.	-8.1	N.A.	1.0	-0.5	3.5
Charlottesville	0.7	14.3	-73.5	0.7	N.A.	-2.0	5.3	2.4	1.0	-8.8
Danville	-3.0	N.A.	-60.9	-3.6	10.6	-13.6	1.5	4.7	-6.3	-1.1
Franklin	2.1	N.A.	509.3	0.9	-0.1	-6.5	N.A.	1.5	6.2	12.9
Fredericksburg	3.1	2.2	126.9	N.A.	9.4	4.8	N.A.	1.9	0.8	16.6
Harrisonburg	2.6	0.4	-13.7	N.A.	10.5	19.6	N.A.	3.5	-6.0	4.1
Lynchburg	10.7	-11.4	45.4	-1.5	N.A.	4.2	1.0	0.9	20.2	1.8
Newport News - Hampton	10.4	-2.3	10.2	2.9	8.5	-1.2	5.0	13.0	16.6	11.1
Norfolk - Va. Beach - Portsmouth	8.0	25.3	-3.2	4.9	11.5	2.4		-4.3	13.8	12.4
Petersburg	7.9	-9.9	7.5	N.A.	-11.1	-13.0	1.9	1.9	23.2	8.5
Richmond	5.9	-0.5	116.3	3.3	3.4	-1.5		10.6	8.6	9.2
Roanoke	2.2	6.1	65.5	3.0	5.6	2.8	5.3	-6.8	3.5	0.9
Staunton	-2.0	16.4	164.5	N.A.	-4.8	3.0	N.A.	N.A.	-2.7	9.2
Williamsburg	5.5	-18.5	-18.2	5.4	N.A.	1.2	N.A.	-4.4	10.3	34.3
Winchester	1.9	13.2	-21.3	0.2	15.0	-4.6	N.A.	-2.9	N.A.	4.2

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits and Bank Debits, which are excluded because of their highly erratic nature.

#Virginia Employment Commission data which lags behind current reports.

†Preliminary data based on a survey sample.

‡Revised data based on sales tax information which lags behind current reports.

the national 3. 7 percent rate in 5 of Virginia's 8 Metropolitan Statistical Areas (MSAs). Only the Danville, Richmond-Petersburg, and Lynchburg MSAs fell below that guideline. Looking to the March taxable sales growth rates which are reported for all 17 areas, only three had growth rates below the 3.6 percent national rate: Winchester, Charlottesville, and Harrisonburg. Therefore the overall momentum appears to be widely dispersed across the Commonwealth.

Some comments by area. First, the State's 8 MSAs, then the other areas. The Northern Virginia MSA (Alexandria in the tables) continues to show booming growth in all sectors except new car sales. Still the State's leading MSA. The Roanoke MSA performance remains strong in employment and construction, and the March rebound in taxable sales growth enhances the summer outlook. Hampton Roads, on both sides of the James River, continues to report above average growth with the exception of building permits on the Norfolk side. The Richmond-Petersburg MSA is experiencing even more rapid growth in retail sales, and building permits skyrocketed in both portions of the MSA. The only crucial laggard is nonagricultural employment growth, still below 2 percent in March. The Bristol MSA displayed renewed growth in April by nearly all measures. That type of broad upswing generally is followed by sustained growth. In the Charlottesville MSA, the performance continues to be mixed. Strong employment growth and a low 4.2 percent unemployment rate, but retail sales in general have been flat or down for most of 1985. Building permits rebounded in April, hopefully a leading indicator of more balanced growth. The Lynchburg MSA shows very strong growth in all types of retail sales and a surge in building permits. Manufacturing employment remains flat, below our predictions, because the increase in domestic manufacturing orders expected by the end of February has been delayed by the surge in imports. Under these circumstances, the 2.1 percent employment growth in March is a very respectable accomplishment. In the Danville MSA, employment growth was only 1.5 percent, and the overall employment rate was 9.3 percent, in March. Retail sales have not yet shown a sustained upward movement in 1985. The most hopeful indicator is the April increase of 122.4 percent in building permits.

In other specific areas, Williamsburg is in high gear with strong gains in the early part of the tourist season. Taxable sales growth has been very high, and employment growth in both the City and James City County was 4.6 percent in March. Franklin has had a phenomenal jump in building permits and retail sales, although new car sales are down. Employment growth in the Franklin Labor Market Area (LMA) has not yet responded — it was 1.4 percent in March. The Fredericksburg area continues to grow strongly in retail sales, other than new cars, and building permits soared in April. This LMA's employment growth was 3.8 percent in March, a healthy rate. The Eastern Shore, Cape Charles-Exmore, turned in its best monthly performance so far in 1985. However, employment in March still was .7 percent below last year, with an area-wide unemployment rate above 7 percent. The weakest recent economic performance has been in the Shenandoah Valley, hitting the Winchester, Staunton, and Harrisonburg areas. In Winchester, taxable sales were down 7.0 percent in March, and the LMA's employment was only .8 percent above last March. For April, new car sales and building permits were down. The Staunton area also was flat or down by most measures, and March employment was slightly below a year ago. Harrisonburg, too, has suffered a generally flat or declining performance, and the Labor Market Area's employment in March was 3.9 percent below the 1984 level. Hopefully this summer the Valley will regain some of the momentum being enjoyed by most of the Commonwealth's urban areas.

RLP

An Editorial on Tax Reform

The public presently is focusing on tax reform, seemingly with a "let's do it" attitude. What an amazing shift since last November, when the Treasury's tax reform proposal was greeted by the public with concern, shock, or apathy. In a December speech, my view was the Treasury proposal, now dubbed "Treasury I," was one of the largest "red herrings," or preliminary prospectus, in history with no more than a 20 percent chance of being adopted. The May final prospectus is very different, in some cases a 180-degree turn, from Treasury I and seems mild by comparison. The comments in the May 29 *Washington Post* say it best. Henry Aaron, a senior fellow at the Brookings Institution, was quoted as saying "This proposal has a very different character. It promises significant improvements, not a revolution. All in all, I think we would have enjoyed the movie if we had not read the book [Treasury I]." Greg Ballentine, a former Treasury Department official, probably was more on target with his comments: ". . . if you hadn't heard of the November proposal and suddenly the President had said we'll have top rates of 35 percent for individuals and 33 percent for corporations, we would have all said: This is tremendous. Call it change, call it overhaul, call it what you will, but it is truly dramatic." The President's proposal is dramatic in its own right, even though less far-reaching than Treasury I. Plus it is a revolution in the true sense of a turning back, moving toward a simpler tax structure with a different philosophy. For 30 years we have endured attempts to fine-tune the Revenue Act of 1954 in search of an income tax code which is all things to all people. The result is a bewildering tax structure which few consider to be fair or efficient, and which has been losing voluntary acceptance among the public at an alarming rate. Roscoe L. Egger, Jr., the Commissioner of Internal Revenue, stated in 1983 that "Voluntary compliance has slid down the scale. In hard cash the difference between the tax owed and the tax paid is more than $80 billion each year. Tax cheating is generally regarded as a minor infraction, not something shameful or the least bit embarrassing. In some sense, it's becoming the taxpayer's revenge against an unfair system." The new philosophy which has been emerging is that fairness means equal taxes for equal income, with far fewer exceptions based on the sources of income, activities, or special circumstances of the individual or company. The President's proposal is not the epitomy of that philosophy, but it does represent a major step in that direction.

The President has launched an aggressive campaign in support of tax reform. One major reason some type of reform does have a chance of being adopted this year is President Reagan is moving with a rising tide in Congress, a tide building on the earlier efforts of such people as Representative Jack Kemp (R-N.Y.) and Senator Robert Kasten (R-Wis.), the authors of the Kemp-Kasten Bill; and Senator Bill Bradley (D-N.J.) and Representative Richard Gephardt (D.-Mo.), cosponsors of the Bradley-Gephardt bill. Not to mention Representative Dan Rostenkowski (D-Ill.), Chairman of the House Ways and Means Committee, who is a strong advocate of tax simplification and reform. However, the essential ingredient is your vocal support. In the Democratic response to President Reagan's May 28 speech, Dan Rostenkowski described this need eloquently, so I will quote at length:

> "Big special-interest lobbies have already joined forces against reform. The campaign to divide Congress has begun.
>
> The battle for reform will be long and tough. It has been fought by Congress and lost before. In the past,

we have been divided and beaten by the legions of special interests — each demanding protection in the name of jobs or national security or economic growth.

In the end, tax reform comes down to a struggle between the narrow interests of the few and the broad interests of working American families. Today the only voices we in Congress hear are those determined to stop reform.

We need to hear your voice.

We will lose this battle if America remains silent. Apathy is the fatal disease of reform. The odds makers are betting that working men and women will not answer the call. They're betting that once again a vocal minority can whip a silent majority.

The President needs your support — and has asked for it. I, as chairman of the Ways and Means Committee and a Democrat, need your support. And I'm asking for it too.

If you've never stood up for your rights as a taxpayer — if you've never voiced your frustration and anger over the unfairness of today's tax system — sit down and write a letter to your representative and senator. And stand up for fairness and lower taxes."

President Reagan has thrown down the gauntlet. In his Williamsburg speech on May 30, the President said, "After all, goes [the people's] thinking, what's immoral about cheating a system that is itself a cheat? This isn't a sin, it is a duty. Our Federal tax system is, in short, utterly impossible, utterly unjust, and completely counter-productive. It has earned a rebellion, and it is time we rebelled." With your letters and vocal support, not just now but continually until final passage of a new tax code, the rebellion can take the productive form of a simpler, fairer tax law which the average person will comply with more willingly. If you remain silent and special interests whittle the tax reform initiative down to another cosmetic ornament added to the existing mantle, the rebellion still will go on — but in a self-destructive form. Individual tax cheating and non-compliance will continue to escalate, undermining the very foundations of our government and society.

Personally, I favor a tax reform plan which differs substantially, in approach and structure, from the President's proposal. But that is not the issue to me. The issue is the need for major reform of the existing tax law. The President's proposal, the Kemp-Kasten or Bradley-Gephardt bills, or a package that more closely resembles Treasury I —any of these would be simpler and, once the phase-in and adjustment by the public is completed, more equitable and efficient than the present tax system. Therefore I strongly agree with President Reagan's closing statement on May 30, "America, go for it." RLP

Let Us Know

July 1 marks the end of my first year as Acting Director of the Bureau of Business Research. During that year we have been evaluating potential new formats for the Virginia Business Report. We now have access to more comprehensive and varied databases than in the past, and both the Bureau and the College currently are developing additional computer capacity and flexibility. Therefore changes will become possible without inordinate cost in time or money. Our question is what will best meet the needs of our subscribers? In June each of you will receive a questionnaire asking for your views on the present format and possible alternatives. Please take a few minutes to complete and return it — we need to hear from you. RLP

The Virginia Business Report is published monthly except in December by the Bureau of Business Research. The publication is provided free of charge as a public service. For information call the Bureau at (804) 253-4493.

Roy L. Pearson, Acting Director, Bureau of Business Research
John C. Jamison, Dean, School of Business Administration

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VIRGINIA BUSINESS REPORT

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 300 June, 1985

Business in Virginia May, 1985 Data

The data now available for April and May generally reveal an easing in the year-over-year growth rates for Virginia although the advances remain strong. Among the ten economic indicators we report, seven showed lower growth. The three exceptions were electricity consumed, newspaper advertising linage, and new car registrations. The new car sales growth has been fluctuating widely in the last four months, and May produced another rebound to double-digit growth, a 17.2 percent year-over-year increase. That brings the cumulative January-May gain to slightly more than 10 percent above last year, a remarkable performance which may not continue throughout 1985 in spite of lower interest rates and strong dealer promotions.

Building permits in May grew by 21.9 percent, well below last month's 33.3 percent gain but still substantially above the average growth for the year to date. The continuing month-to-month volatility in the growth rates for individual cities as well as the frequent reports of monthly increases exceeding 100 percent indicates commercial building plans still are strong in many parts of the State. Coupled with the rising demand for residential housing, the outlook for construction and construction-related businesses remains very favorable for the summer.

The taxable sales data reported for April show a 12.3 percent rise from April 1984, slightly lower than the 13.5 percent March increase. However, Virginia's taxable sales growth continues to be far higher than the national rate. A comparable national measure, retail sales excluding the automobile group and not seasonally adjusted, was only 5.3 percent higher in April 1985 than last April. Retail trade growth remains one of the Commonwealth's main strengths. But, a comparison of taxable sales information with our retail sales sample, primarily of general merchandise retailers, implies that nondurable goods demand has been weakening recently. The taxable sales growth appears to be fueled more strongly by rising demand for building supplies; home and commercial furnishings; and services such as lodging, a reflection of growing tourist visitation. The net effect of such a demand shift would be positive for Virginia since a high percentage of these goods and services are produced here. But, some industries and retailers will be adversely affected if such a shift has indeed occurred and endures in the coming months.

Nonagricultural employment growth in April followed the pattern of earlier months: high growth, 4.3 percent year-over-year, but again a slight decline from the previous month's 4.7 percent. Virginia's 4.3 percent gain again was above the national growth rate of 3.5 percent. That high job growth still must be attracting new residents to Virginia, and creating ripple effects for nearly all types of businesses.

Reviewing the individual urban areas' performances as measured by the nine indicators reported in Table II and supplemented by overall employment data for the areas for which nonagricultural employment data are not available, the picture is more mixed this month. Only the Northern Virginia (Alexandria) and Newport News-Hampton areas achieved growth rates in the top one-half among all 17 areas for all of the economic indicators. The other 15 areas are reporting growth in most of the measures, but each had a weak performer or two by comparison to the other urban areas. High growth across-the-board appears to be becoming more difficult to achieve from month to month in most of the State, a development which is consistent with the gradual slowing of overall growth observed for the Commonwealth. We continue to achieve healthy gains, but the effort required to do so is increasing.

RLP

Chart I

Nine Selected Business & Economic Indicators Percentage Change

Percentage Change May, 1985 from May, 1984

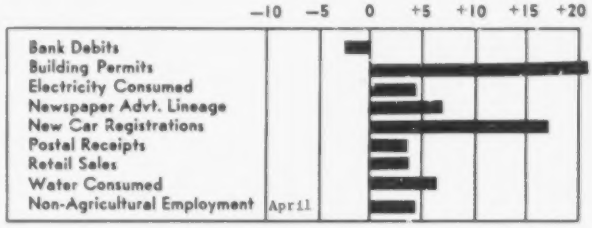
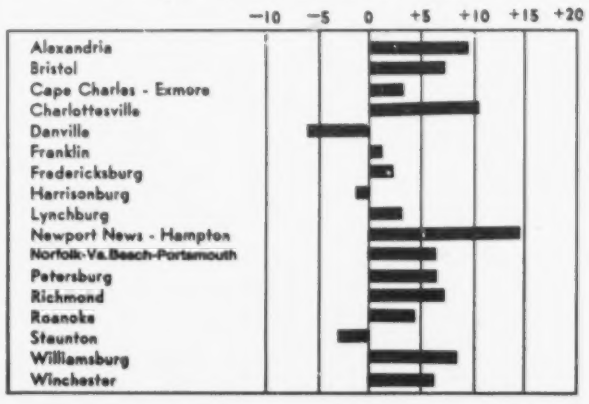


Chart II

City Indices

Percentage Change May, 1985 from May, 1984



SELECTED BUSINESS AND ECONOMIC INDICATORS FOR 17 CITIES

TABLE I May 1985

Monthly Index Number Comparisons of Current Month to Same Month in Base Period (1977) - Base Period = 100

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	NON AGRI-CULTURAL EMPLOYMENT	WATER CONSUMED	RETAIL SALES †	POSTAL RECEIPTS
The State		300.5	154.6	106.8	106.7	283.2	125.6	88.1	165.7	129.1
Alexandria	146.9	261.1	100.0	102.9	N.A.	146.7	161.1	94.7	179.0	N.A.
Bristol	142.0	28.2	96.4	91.8	79.6	116.9	106.2	85.6	162.9	273.5
Cape Charles - Exmore	123.9	91.8	394.0	95.8	N.A.	91.9	N.A.	N.A.	115.3	109.8
Charlottesville	178.4	165.5	250.2	102.4	N.A.	131.3	104.9	112.0	214.5	259.3
Danville	124.9	N.A.	193.5	113.2	124.1	111.5	99.3	89.4	116.8	210.3
Franklin	147.9	N.A.	143.0	915.3	116.5	114.8	N.A.	107.3	140.5	207.8
Fredericksburg	175.2	133.1	219.7	N.A.	150.7	164.5	N.A.	57.6	197.2	261.8
Harrisonburg	164.3	41.0	256.1	N.A.	138.9	111.3	N.A.	126.9	180.2	232.7
Lynchburg	195.2	257.0	103.0	102.6	N.A.	134.6	96.1	115.5	142.4	586.8
Newport News - Hampton	133.9	161.0	201.6	93.8	90.6	104.2	125.7	110.2	179.4	N.A.
Norfolk - Va. Beach - Portsmouth	157.5	341.6	215.6	115.3	95.2	119.6		76.7	231.9	N.A.
Petersburg	124.2	111.0	97.7	N.A.	47.7	93.0	115.9	90.8	144.4	204.6
Richmond	129.2	322.5	100.0	120.6	127.9	130.6		101.2	141.4	N.A.
Roanoke	150.8	349.1	188.5	92.0	167.2	96.7	111.7	105.1	168.6	239.5
Staunton	125.8	115.2	35.4	N.A.	N.A.	114.1	N.A.	N.A.	104.3	202.1
Williamsburg	147.2	200.7	273.7	129.3	N.A.	139.8	N.A.	94.1	136.0	258.0
Winchester	178.2	236.8	83.5	111.2	204.2	136.7	N.A.	124.2	N.A.	314.9

TABLE II May, 1985

Percentage Change from same month last year.

CITY	CITY INDEX*	BANK DEBITS*	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	APRIL NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	APR. RETAIL SALES ‡
The State		-2.6	21.9	4.3	6.5	17.2	4.3	6.1	3.7	12.3
Alexandria	9.0	-5.5	45.3	10.0	N.A.	15.3	8.1	4.4	8.0	17.5
Bristol	7.1	18.3	36.0	-7.5	15.3	5.9	4.7	16.3	6.5	-1.4
Cape Charles - Exmore	2.8	-16.0	-55.0	3.9	N.A.	-6.2	N.A.	25.1	-2.1	13.9
Charlottesville	10.1	19.4	38.3	11.1	N.A.	41.4	3.2	-14.0	7.3	1.2
Danville	-6.0	N.A.	-17.1	-4.4	6.2	5.0	2.0	0.1	-16.3	-3.4
Franklin	1.0	N.A.	33.9	2.0	5.0	7.1	N.A.	-10.7	1.2	46.3
Fredericksburg	2.3	-32.4	214.5	N.A.	11.0	19.4	N.A.	9.1	-8.5	19.7
Harrisonburg	-1.3	-17.0	350.7	N.A.	5.5	9.7	N.A.	6.2	-9.7	8.3
Lynchburg	2.9	23.2	38.7	1.9	N.A.	-1.2	1.2	1.5	5.1	0.6
Newport News - Hampton	14.8	11.0	96.5	7.0	10.4	13.2	4.2	17.2	18.6	1.3
Norfolk - Va. Beach - Portsmouth	5.8	-16.7	14.4	-2.5	12.9	17.2		-0.1	4.4	15.0
Petersburg	6.3	-3.6	298.3	N.A.	-9.6	2.5	2.5	3.5	13.7	11.8
Richmond	6.7	-4.5	-2.1	6.2	4.4	12.9		15.7	2.6	11.4
Roanoke	4.6	9.3	-65.4	1.1	4.0	18.3	4.7	-5.6	4.8	7.1
Staunton	-3.0	8.4	116.7	N.A.	N.A.	0.6	N.A.	N.A.	-4.2	-4.8
Williamsburg	8.1	-23.4	-54.4	10.5	N.A.	18.8	N.A.	18.6	0.3	23.5
Winchester	6.0	41.2	328.7	1.9	-6.7	28.1	N.A.	0.6	N.A.	2.1

TABLE III

Percentage Change January - May same period last year

CITY	CITY INDEX*	BANK DEBITS*	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	JAN.-APR. NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	JAN.-APR. RETAIL SALES‡
The State		1.9	13.9	3.0	7.5	10.1	4.7	4.4	7.9	9.5
Alexandria	7.1	-7.6	82.1	4.3	N.A.	0.9	9.4	8.9	9.5	13.7
Bristol	10.8	-13.5	112.6	-2.9	8.8	-4.1	3.7	7.8	21.9	-0.2
Cape Charles - Exmore	-0.7	-27.6	-14.6	0.8	N.A.	-7.7	N.A.	5.2	-0.9	6.2
Charlottesville	2.7	14.8	-63.1	2.5	N.A.	7.6	4.8	-1.1	2.4	-6.1
Danville	-3.6	N.A.	-55.5	-3.8	9.5	-9.3	1.7	3.7	-8.5	-1.7
Franklin	1.7	N.A.	248.5	1.1	1.0	-3.5	N.A.	-1.3	4.9	20.2
Fredericksburg	2.7	-8.2	165.7	N.A.	9.8	8.1	N.A.	3.4	-1.7	17.5
Harrisonburg	10.6	-2.4	41.3	N.A.	9.2	16.9	N.A.	4.1	11.1	5.2
Lynchburg	8.9	-6.3	44.2	-1.0	N.A.	2.7	1.1	1.0	16.8	1.5
Newport News - Hampton	11.4	-0.3	25.8	3.6	9.0	2.2	4.8	13.9	17.0	8.5
Norfolk - Va. Beach - Portsmouth	7.4	13.8	0.2	3.7	11.8	6.0		-3.5	11.3	13.1
Petersburg	7.4	-8.5	74.5	N.A.	-10.8	-9.2	2.1	2.2	20.7	9.4
Richmond	6.0	-1.3	98.5	3.8	3.6	1.9		11.7	7.0	9.8
Roanoke	2.7	9.9	5.8	2.6	5.2	6.5	5.2	-6.6	3.8	2.6
Staunton	-1.7	14.6	159.6	N.A.	N.A.	2.4	N.A.	N.A.	-3.0	4.9
Williamsburg	6.0	-19.6	-25.0	6.3	N.A.	5.5	N.A.	0.9	7.7	30.4
Winchester	2.7	15.1	53.8	0.5	9.6	3.0	N.A.	-2.2	N.A.	3.6

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits and Bank Debits, which are excluded because of their highly erratic nature.
#Virginia Employment Commission data which lags behind current reports.
†Preliminary data based on a survey sample.
‡Revised data based on sales tax information which lags behind current reports.
[Only total MSA data are available for these areas.

Interpreting the GNP Flash

On June 20 the U.S. Department of Commerce released its "flash" estimate of the nation's second quarter output, projecting that the real (inflation-adjusted) Gross National Product (GNP) grew at a 3.1 percent annual rate.

As usual, the flash estimate of real GNP got broad media coverage, drew a wide range of comments from government and private economists, and caused a reaction in the financial markets. How should the flash reports be interpreted by the public? This is an appropriate time to discuss that question and offer your opinion.

Don't be blinded by the flash. It is not like a picture taken on a set illuminated with brilliant floodlights, showing in clear detail the nation's recent economic performance. Instead, it is more similar to a photographer's description of a room's contents, based on a photograph taken in a dark room with a narrow beam flashlight which makes only a few objects visible in the picture. The photographer was there, but with a view not much clearer than the one shown in the photograph.

The second quarter includes April, May, and June. But the flash estimate was released on June 20, before the June data are available. In fact, all flash estimates are based primarily on the data for the first month of the quarter, in this case April, supplemented by some preliminary reports for the second month. Therefore the flash estimate is mainly a *forecast* for the quarter, subject to substantial forecasting errors.That difference generally is not mentioned in television coverage; and newspapers usually describe how the flash estimate is obtained in the second half of the story, if at all. The result is far more significance is attached to the flash estimate than it deserves. Granted, the forecast is prepared by people whose job is obtaining and evaluating the data used in GNP estimates; but it still is a forecast, one of many predicting what happened (and for June, what will happen) in the second quarter.

The only certainty about the June flash estimate is it will be revised: in July, August, and September of 1985 and again, usually in July, in 1986, 1987, and 1988, plus in the major benchmark revisions of historical data. These revisions are an ongoing process as data become available to replace forecasted components and adjust the prior estimates which were based on samples and preliminary information. In our opinion, the way to view the flash estimate of real GNP and its growth rate is "Okay, we have the Federal government's best guess. How much, and in what direction, is that guess likely to be revised in coming months?"

The historical record of the estimated growth rates and the revisions in them provides useful insights for interpreting the flash estimates. Table IV is taken directly from the May 21, 1985 issue of *U.S. Department of Commerce News* and shows for the period 1974-1983 the average absolute size of the revisions in their quarterly estimates as well as the range of the revisions. The four quarterly estimates evaluated are the flash estimate released before the end of the quarter; the first revision, released in the second month; and the second revision, published in the third month at the time of the next flash estimate. The sizes of the revisions were calculated by comparing each of the early estimates against the latest estimates available for each quarter which are the future year's revisions, usually made in July. For the period 1974-1983, the average absolute revision in the flash estimate was 1.7 percentage points. The same 1.7 percent revision also occurred for the preliminary estimates. The average absolute error of the current estimates then declined with the first revision. For the second quarter 1985 GNP data, that first revision is scheduled for release on August 20.

The second column of Table IV gives the range within which two-thirds of the revisions fell. That is the information the Department of Commerce quotes in each GNP release. For example, two-thirds of the revisions in the flash estimates have been between a decrease of 0.9 percent from the current flash and an increase of 2.8 percent. Therefore the June 20 news release contains the following statement: "Thus, based on past experience, it is likely that the second-quarter change in real GNP, now estimated at 3.1 percent at an annual rate, will not be revised below 2.2 (3.1 - 0.9) or above 5.9 (3.1 plus 2.8) percent" (parentheses added). In sum, the longer-term history indicates the upward revisions in the flash estimate *normally* have been substantially larger than the downward ones. The next question is whether the more recent economic performance can be considered normal.

The recent quarterly values for the flash estimates as well as the preliminary, first, and second revision estimates are given in Table V. We will focus on the flash estimates and the second revisions made three months later. Looking just at the flash estimates, the *early* data for the first quarter of 1984 (1984:1) through the first quarter of 1985 (1985:1) have indicated a steady decline in the nation's real growth rate: from 7.1 percent in 1984:1 to 2.1 percent in 1985:1. Against that pattern, the June 20 flash estimate of a 3.1 percent annual growth rate during 1985:2 is an encouraging reversal. The quarterly differences between the flash and the second revision estimates, however, show the volatility of recent estimates, particularly in the downside revisions. The upward revisions in 1984:1 of plus 1.5 percentage points and plus 1.4 in 1984:2 were within the usual limits. Then, the unusually large downward revision of -2.0 percent occurred in 1984:3, showing the early data used for the September flash estimate did not indicate the magnitude of the softness in real output continuing into September. The fourth quarter of 1984 (1984:4) followed the opposite pattern: the December flash estimate of 2.8 percent was revised upward in March, 1985 to 4.3 percent, an increase of 1.5 percentage points. The true strength of the fourth quarter rebound was not apparent until more complete data were available on business inventories and foreign trade. In the first quarter of 1985 the flash estimate was a 2.1 percent annual rate of real GNP growth, below the average private sector forecast of 3.6 percent as reported in the January 10 issue of *Blue Chip Economic Indicators*. Then the growth estimates successively were revised downward, quite unexpectedly and by an abnormally large percent, to the June 20 second revision of a 0.3 percent annual growth rate. The downward revision of -1.8 percentage points was caused largely by data on the first-quarter surge in imports which held U.S. output growth essentially at zero while domestic demand was growing at 4.0 percent.

The Department of Commerce flash estimate based mainly on April data projected a 3.1 percent annual growth rate in the second quarter, a substantial rebound by comparison to either the first quarter's flash or second revision estimates. Which way the 3.1 percent will be revised depends largely on what happened in June. Did import growth slow down sufficiently, and was private consumption demand for U.S. goods and services high enough, to produce an additional net stimulus in June? We believe such a net stimulus did occur, so the revisions through September 20 are likely to reveal a small upward adjustment in the second quarter's growth rate for real GNP. We recommend you formulate your *own* estimate of what the revised second quarter real growth rate will be in the September 20 press release.

RLP

TABLE IV

Revision in Quarter-to-Quarter Percent Changes At Annual Rate For Real (constant-dollar) GNP, 1974-1983

Quarterly Estimate	Average without regard to sign	Range	
		Two-thirds of Revisions	Nine-tenth of Revisions
Flash	1.7	- .9 to 2.8	-2.4 to 4.5
Preliminary	1.7	-1.2 to 2.8	-2.4 to 3.5
First revision	1.5	-1.4 to 1.9	-2.1 to 2.8
Second revision	1.4	-1.6 to 1.5	-2.4 to 2.7

TABLE V

Flash Through Second Revision Estimates of Quarter-to-Quarter Percent Changes at Annual Rate For Real (constant-dollar) GNP, 1984:1 Through 1985:1

Quarterly Estimate	1984:1	1984:2	1984:3	1984:4	1985:1
Flash	7.2%	5.7%	3.6%	2.8%	2.1%
Preliminary	8.3	7.5	2.7	3.9	1.3
First Revision	8.8	7.6	1.9	4.9	.7
Second Revision	8.7	7.1	1.6	4.3	.3

Source: U.S. Department of Commerce News

The Virginia Business Report is published monthly except in December by the Bureau of Business Research. The publication is provided free of charge as a public service. For information call the Bureau at (804) 253-4493.

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VIRGINIA BUSINESS REPORT

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 301 July 1985

Business in Virginia June, 1985 Data

The Virginia economy's growth is continuing to slow down in comparison to last year, as expected. That phrase will be repeated in the coming months since the deceleration to more normal, sustainable growth is not yet complete. However, there are no signs that the Commonwealth's economy will grind to a halt later in 1985.

You are very likely to disagree if you now glance at the June growth rates shown in Table II--the number of minus signs is shocking at first. Some do indicate true weakness at the present, but most of them do not. Comparisons are a useful method for gaining a perspective. However, one always must be mindful that two numbers are involved. Do you feel tall? Subtract Ralph Sampson's height from yours and you will get a minus sign. You did not shrink, you just used an unusual basis for comparison. For two of our business indicators, building permits and new car registrations, the June 1984 basis for comparison was unusually high in many of Virginia's cities. Therefore the year-over-year percent change this June is negative for such cities. A plus sign in such a case would be great news, showing continued unusually high growth. The minus sign, however, is not *bad* news under the circumstances. In the July 1984 issue we reported building permit gains of over 100 percent in June 1984 for 7 areas. Reviewing those numbers you would have predicted they would be hard to beat this year, and you would have had an excellent forecasting record: 6 of those 7 areas showed year-over-year declines in June 1985. In sum, most of the June minus signs for building permits do not indicate an unfavorable construction outlook, and next month's more universal plus signs will not indicate a sudden turnaround. The construction picture was favorable in June and remains favorable in July.

The June automobile registration growth rates in several cities also are the result of comparisons to very high levels a year ago. However, the fact that all of the cities showed declines in June indicates a broader leveling off in automobile demand.

The major real weakness among our business indicators is in the retail sales sample, which primarily consists of general merchandise establishments. The Statewide decline of 1.1 percent implies a continuation of the shift we discussed last month in consumer buying: more emphasis on services, especially travel and recreation, at the expense of general merchandise purchases. The taxable sales reports for May are not available at this time (hence the "N.A.'s" in the last column of Table II) so we do not have additional quantitative evidence for Virginia. However the national reports of a June decrease in retail sales concurrent with an increase in personal consumption expenditures imply there was such a shift nationally. As stated last month the net effect on Virginia will be positive, even though some businesses are being adversely effected. The bad news is reported by our retail sales sample. The good news, which is *not* measured by any of the current month's economic indicators, is the shift is generating high growth in recreation, attractions and motel and restaurant receipts. Therefore the broadly distributed minuses shown for the retail sales sample are only part, and the negative part, of the current situation for Virginia retailers.

June and July 1984 data patterns make a significant portion of this summer's results more difficult to interpret. Close scrutiny yields a generally favorable assessment of the Commonwealth's economic health, which is reinforced by May's 3.9 percent growth in nonagricultural employment — still decelerating, but still strong. The Commonwealth has not come up short, in spite of the minuses among the reported year-over-year changes. RLP

Chart I

Nine Selected Business & Economic Indicators Percentage Change

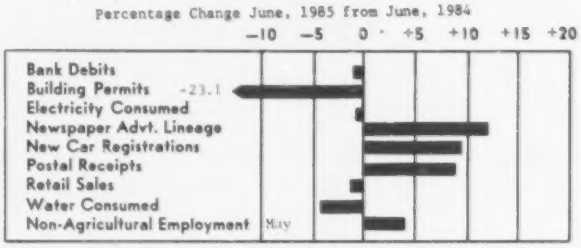
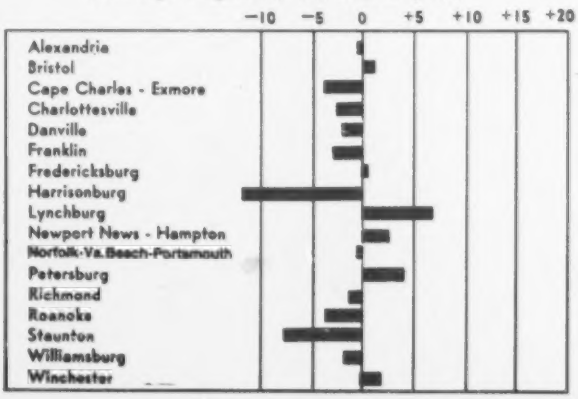


Chart II

City Indices



SELECTED BUSINESS AND ECONOMIC INDICATORS FOR 17 CITIES

TABLE I June, 1985

Monthly Index Number Comparisons of Current Month to Same Month in Base Period (1977) - Base Period = 100

CITY	CITY INDEX*	BANK DEBITS*	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	MAY NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	POSTAL RECEIPTS
The State		286.0	169.7	123.8	108.2	289.2	285.6	93.0	149.0	126.7
Alexandria	141.4	250.3	650.5	127.8	N.A.	143.0	163.4	87.5	156.1	N.A.
Bristol	135.2	31.5	43.9	84.8	84.4	107.9	106.2	99.9	141.7	308.6
Cape Charles - Exmore	146.5	58.7	274.7	110.5	N.A.	102.4	N.A.	N.A.	134.6	262.5
Charlottesville	162.1	218.9	98.0	116.4	N.A.	157.2	105.4	114.7	177.4	270.6
Danville	134.0	N.A.	79.5	110.9	124.0	90.6	99.0	92.3	148.9	242.4
Franklin	133.5	N.A.	9.1	107.4	112.6	124.6	N.A.	103.6	126.8	239.3
Fredericksburg	209.4	84.2	368.7	N.A.	128.5	185.7	N.A.	58.9	210.0	462.4
Harrisonburg	147.5	255.3	318.9	N.A.	130.8	105.4	N.A.	128.6	138.3	252.5
Lynchburg	190.0	397.0	316.7	108.8	N.A.	112.2	97.0	131.5	176.2	542.0
Newport News - Hampton	129.3	183.2	260.3	112.9	89.7	110.9	127.3	125.3	156.0	N.A.
Norfolk - Va. Beach - Portsmouth	146.1	278.5	192.3	137.8	104.4	115.4		76.7	196.1	N.A.
Petersburg	117.9	108.0	81.4	N.A.	41.3	74.9	116.2	101.3	133.6	208.7
Richmond	135.4	281.7	159.5	139.0	124.2	121.8	N.A.	112.7	110.0	255.2
Roanoke	143.9	503.4	60.8	93.7	157.2	91.6	113.0	98.2	155.9	273.8
Staunton	131.8	116.0	36.9	N.A.	81.9	88.2	N.A.	N.A.	128.7	234.7
Williamsburg	163.0	144.2	217.3	158.4	N.A.	141.5	N.A.	122.6	126.7	338.5
Winchester	167.8	261.3	177.3	116.6	194.3	140.2	N.A.	118.2	N.A.	269.8

TABLE II June, 1985

Percentage Change from same month last year

CITY	CITY INDEX*	BANK DEBITS*	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	MAY NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	MAY RETAIL SALES ‡
The State		-1.0	-23.1	-0.7	12.0	9.7	3.9	-4.5	-1.1	N.A.
Alexandria	-0.4	-3.3	-27.1	0.5	N.A.	-7.8	7.8	-15.2	4.0	N.A.
Bristol	0.8	6.3	-76.4	-5.4	23.0	-16.4	4.3	7.2	-2.0	N.A.
Cape Charles - Exmore	-4.0	-23.4	19.5	-0.8	N.A.	-3.1	N.A.	-4.0	-5.3	N.A.
Charlottesville	-2.9	31.1	-62.4	-2.1	N.A.	-13.9	2.3	-6.8	-0.7	N.A.
Danville	-2.2	N.A.	-69.8	-8.4	19.5	-19.3	1.3	-1.4	-3.1	N.A.
Franklin	-3.1	N.A.	-48.4	-5.1	4.5	-15.6	N.A.	6.2	-4.0	N.A.
Fredericksburg	0.4	1.6	-17.4	N.A.	-4.1	-12.4	N.A.	-8.2	9.1	N.A.
Harrisonburg	-12.1	24.6	136.5	N.A.	5.9	-16.6	N.A.	4.2	-22.0	N.A.
Lynchburg	6.7	50.7	-2.1	-4.1	N.A.	-23.4	1.0	13.3	20.0	N.A.
Newport News - Hampton	2.4	-13.1	6.4	0.4	15.8	-14.6	3.9	3.7	3.5	N.A.
Norfolk - Va. Beach - Portsmouth	-0.2	6.9	-27.0	1.5	13.8	-18.7		-12.5	3.5	N.A.
Petersburg	3.9	-6.3	-80.5	N.A.	8.2	-17.0	2.1	1.5	10.8	N.A.
Richmond	-1.9	-10.8	-47.6	-0.8	12.2	-8.6		-3.1	-5.7	N.A.
Roanoke	-4.1	28.5	2.8	-3.9	6.7	-10.7	5.1	-12.3	-6.0	N.A.
Staunton	-7.7	0.0	90.2	N.A.	11.5	-32.8	N.A.	N.A.	-5.7	N.A.
Williamsburg	-1.8	-20.0	19.7	2.5	N.A.	-21.2	N.A.	18.3	-3.5	N.A.
Winchester	1.4	8.5	227.3	0.7	13.7	-6.3	N.A.	-2.5	N.A.	N.A.

TABLE III

Percentage Change January - June from same period last year

CITY	CITY INDEX*	BANK DEBITS*	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	JAN.-MAY NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	JAN.-MAY RETAIL SALES‡
The State		1.4	6.2	3.0	8.1	10.0	4.6	3.1	5.9	N.A.
Alexandria	6.5	-6.8	42.6	3.7	N.A.	-0.9	9.1	8.3	8.4	N.A.
Bristol	1.3	-8.6	50.4	-3.2	11.1	-6.9	3.8	7.7	-0.7	N.A.
Cape Charles - Exmore	2.9	-27.0	-9.6	24.7	N.A.	-6.7	N.A.	3.5	-1.4	N.A.
Charlottesville	2.3	16.5	-63.0	1.7	N.A.	2.5	4.2	1.8	1.9	N.A.
Danville	-0.3	N.A.	57.5	-4.6	11.4	11.2	1.6	2.7	-8.2	N.A.
Franklin	1.1	N.A.	229.7	0.1	1.6	-3.7	N.A.	0.0	3.2	N.A.
Fredericksburg	2.2	-6.6	103.9	N.A.	7.4	3.5	N.A.	1.3	0.4	N.A.
Harrisonburg	5.3	9.6	48.3	N.A.	8.6	9.0	N.A.	4.1	3.4	N.A.
Lynchburg	7.4	1.1	28.0	-1.5	N.A.	-3.2	1.1	3.0	17.5	N.A.
Newport News - Hampton	8.8	-2.6	21.9	3.0	10.1	-1.6	4.6	12.0	14.2	N.A.
Norfolk - Va. Beach - Portsmouth	5.6	12.6	-5.0	3.4	12.2	0.5		-5.2	9.7	N.A.
Petersburg	5.9	-8.2	-2.3	N.A.	-8.1	-10.7	2.1	2.1	18.6	
Richmond	4.0	-2.9	52.9	3.1	5.1	-0.2		8.7	4.4	N.A.
Roanoke	1.8	12.8	5.5	1.6	5.5	3.0	5.2	-7.6	2.1	N.A.
Staunton	-1.9	11.9	155.9	N.A.	-1.1	2.0	N.A.	N.A.	-3.5	N.A.
Williamsburg	7.4	-19.4	-20.0	27.7	N.A.	-0.9	N.A.	4.5	4.3	N.A.
Winchester	2.4	13.9	75.0	0.5	10.4	1.1	N.A.	-2.3	N.A.	N.A.

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits and Bank Debits, which are excluded because of their highly erratic nature.
#Virginia Employment Commission data which lags behind current reports.
†Preliminary data based on a survey sample.
‡Revised data based on sales tax information which lags behind current reports.
⊏Only total MSA data are available for these areas.

State and Urban Area Personal Income, 1980-1983

The *Virginia Business Report* usually focuses on current developments and the prospects for the near future. However, current data always are incomplete and subject to revision, so occasionally it is desirable to report and examine the past performance as more complete data become available. A look backward not only gives a clearer view of what actually transpired but also a better understanding of the forces which shaped the present economic environment.

Now is an appropriate time to review the Commonwealth's personal income levels and growth in the early 1980's since the Bureau of Economic Analysis of the U.S. Department of Commerce released on May 14, 1985, revised personal income and population estimates through 1983 for all states, cities, and counties. That is the normal time one must wait in order to have full data, especially for individual areas. A major source of information for preparing the estimates is individual and corporate tax returns, which for calendar year 1983 were not filed until 1984. Then, using that information along with other sources to prepare and check estimates for each city and county in the nation is a massive task, requiring many months even with the use of computers. When you consider what is involved, getting full 1983 data in May of 1985 actually is a remarkable accomplishment.

Personal income is all income received by individuals, before Federal and state income taxes. Its major component is wages and salaries, but it also includes social security receipts and welfare payments as well as rents, interest and dividends. Therefore it is a broad measure of before-tax receipts. The total personal income received in a state or city is not a very useful number for comparisons since the number of people supported by that income varies enormously from one area to the next. A better measure is personal income per capita, obtained by dividing the total personal income by the resident population, to show the average income received per resident. The per capita income figures, while not a perfect guide, do give a clearer view of the differences among areas in the average circumstances of individuals. In the following review of the per capita figures for different areas, bear in mind that the numbers are *not* a direct measure of the economic development *within* an area. A metropolitan area can achieve employment growth through additional jobs for commuters from outside of the area, with little change in resident income. Conversely, the residents of a metropolitan area may be getting jobs in other localities, raising resident income per capita without a comparable rate of job growth for the metropolitan area where they live. Our focus here is how individuals have fared, not how metropolitan areas have grown-that would be better shown by wages and salaries earned by place of work rather than personal income by place of residence.

In our brief report we cannot review the income in each city and county. Therefore in Table IV we have grouped the cities and counties according to the current Federal definitions of the State's Metropolitan Statistical Areas (MSAs) and the Commonwealth's definitions of Labor Market Areas (LMAs). There are three exceptions, corresponding to the tables regularly reported: the Eastern Shore, Accomack and Northampton Counties, which corresponds to our monthly Cape Charles-Exmore designations; the city of Franklin; and Williamsburg-James City County, which we report separately each month even though these localities also are part of the Norfolk-Virginia Beach-Newport News MSA.

In 1980 the Commonwealth's personal income per capita was $9,446, as shown in Table IV. We had gained ground in previous years, but that still was only 99 percent of the national average. In only two urban areas, the Virginia portion of the Washington, D.C., MSA (which we will refer to as Northern Virginia) and the Richmond-Petersburg MSA, was the average individual income above the national average. For 10 of the 17 areas shown, the per capita income was less that 90 percent of the national average, leaving substantial room for improvement.

Nationally, personal income per capita increased from $9,494 to $11,687 from 1980 through 1983, a 23.1 percent gain. However, bear in mind that the Consumer Price Index rose by 20.9 percent, so the real (inflation-adjusted) growth totalled only 2 percent. (Since all of the figures in Table IV are stated in current dollars, you can derive the real change for any area by subtracting 21 percent from the income growth rate). Sticking to current dollars, how well did the Commonwealth fare? As shown, Virginia's personal income per capita rose to $12,122, a 28.3 percent gain. That pulled Virginia from 99 percent of the national average to 104 percent, a very noteworthy accomplishment. However, what happened in individual areas is more relevant as a personal guide.

Scanning the last column of Table IV, residents of *all* of Virginia's urban areas had income growth rates above the national rate. In the Bristol MSA the gain was only a fraction of a percent higher, 23.4 percent versus 23.1 percent, which left that area with the same 71 percent of the nation's average income per person. At the other extreme, six of the areas had growth exceeding the State rate: the Norfolk-Virginia Beach-Newport News MSA; the Roanoke MSA; two LMAs, Harrisonburg and Winchester; and Williamsburg-James City County.

The growth from 1980 through 1983 resulted in resident income in two more areas, the Roanoke MSA and Williamsburg-James City County, reaching or exceeding the national average. Plus, the income per resident in the Charlottesville MSA and Harrisonburg and Winchester LMAs moved to 90 percent or more of the national average. However, 7 of the 17 areas still had average resident income below 90 percent of the U.S. average in spite of local income growth. The very high individual income in Northern Virginia in both 1980 and 1983, at 142 and 148 percent respectively of the national average, substantially influenced the State average. This obscured the fact that in most areas of the State the residents, even in 1983, did not yet have average receipts equal to the U.S. average personal income per capita. The Winchester LMA had the highest resident income growth rate in the State, 31.3 percent for the period 1980-1983, but at the end of 1983 even *its* residents still received only 94 percent of the nation's personal income per person.

Virginia residents did achieve above-average personal income gains between 1980 and 1983. As we pointed out in the March issue, above-average personal income growth also occurred in 1984 and can be expected in 1985 and 1986. But that does not mean that growth no longer needs to be a priority goal. The 1983 personal income data show residents of most areas of the Commonwealth at that time still needed several more years of above-average personal income growth in order to reach national parity. That remains true today, even after one and a half additional years of good economic growth in the Commonwealth.

RLP

TABLE IV

Levels and Growth of
Personal Income Per Capita in Virginia

Area	Personal Income Per Capita 1980	1983	Percent of National Average 1980	1983	Percent Change, 1980-1983
United States	$ 9,494	$11,687	100%	100%	23.1%
Virginia	9,446	12,122	99	104	28.3
Virginia Portion of Washington, DC MSA	13,495	17,348	142	148	28.6
Virginia Portion of Bristol MSA	6,727	8,302	71	71	23.4
Eastern Shore	6,860	8,794	72	75	28.2
Charlottesville MSA	8,414	10,900	89	93	29.5
Danville MSA	7,001	8,831	74	76	26.1
Franklin	5,995	7,647	63	65	27.6
Fredericksburg LMA	8,369	10,560	88	90	26.2
Harrisonburg LMA	7,568	9,766	80	84	29.0
Lynchburg MSA	8,261	10,444	87	89	26.4
Norfolk-Virginia Beach-Newport News MSA	8,785	11,314	93	97	28.8
Richmond-Petersburg MSA	10,229	13,039	108	112	27.5
Roanoke MSA	8,985	11,636	95	100	29.5
Staunton-Waynesboro LMA	7,980	10,187	84	87	27.7
Williamsburg-James City County	9,253	12,034	97	103	30.0
Winchester LMA	8,350	10,966	88	94	31.3

NOTES: MSA is the abbreviation for Metropolitan Statistical Area. The area definitions are those announced by the Federal Government on June 27, 1983, which all states switched to using in January, 1985. LMA is the abbreviation for Labor Market Area, as defined by the Virginia Employment Commission. Both MSA and LMA definitions are listed each month in Labor Force Estimates, published by the Virginia Employment Commission.

The Virginia Business Report is published monthly except in December by the Bureau of Business Research. The publication is provided free of charge as a public service. For information call the Bureau at (804) 253-4493.

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VIRGINIA BUSINESS REPORT

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 302 August, 1985

Business in Virginia July, 1985 Data

From January through June, the percentage changes in non-agricultural employment from the corresponding month in 1984 have been steadily declining. The January gain was 5.4 percent, followed by 4.8 percent in February; 4.7 in March; 4.3 in April; 3.9 in May; and 3.6 percent in June. As we go to press, the July employment figures are not yet available. However, the first half downward trend in this growth rate is strong evidence that the Virginia economy's overall growth has slowed down. But we **are** still growing at sufficient speed to hold or reduce our below-average unemployment rate in the months ahead. It will be several months before we have the State income data which will give a more precise measure of just how well Virginia is doing at the present. However, this month's inside article reports on the recent Federal release which showed Virginia's total personal income rose at a 10.4 percent seasonally adjusted rate in the first quarter of 1985, the third highest growth rate among the 50 states. Even with some easing in that rate of growth in the rest of 1985, the Commonwealth will do very well indeed.

The most favorable employment development in June was the increase from May to June in total manufacturing employment, an increase which was widely distributed across industries. The increase still left manufacturing employment below June of 1984. But, we expect manufacturing employment to continue to rise in the months ahead, helping to stabilize Virginia's employment growth as slower advances occur in trade and services employment.

The July retail sales sample reports for the State show substantial improvement compared to June. For July, the year-over-year increase was 5.7 percent Statewide. That is significantly better than the national year-over-year gain of 4.4 percent in total retail trade other than the automobile group. Our sample does not include hotels and restaurants, businesses which have had rapidly growing sales due to the very strong tourist season being experienced. Therefore when the full taxable sales data are available next month, that retail sales measure undoubtedly will reveal a growth rate significantly higher than 5.7 percent. The summer months are showing good growth for most types of Virginia retailers, thanks to the continued above average growth in Virginia residents' income and a large increase in tourists. The high value of the dollar did attract some Americans overseas, but increased domestic travel more than offset any impact in Virginia. Reviewing another consumer demand indicator, new car registrations in Virginia gained 6.1 percent in July compared to July 1984. That growth rate may bounce back to a higher level in the next month or two, but the durable goods boom of last summer is not being repeated at present. The most likely development is for new car registrations to average less than 10 percent growth for the year.

The surprise this month was the July decline in building permits to 21.1 percent below the level of July 1984. The improvement we anticipated after June's performance did not materialize. This indicator is extremely erratic from month to month, so the July figures should not be interpreted as a signal that our

Chart I

Nine Selected Business & Economic Indicators Percentage Change

Percentage Change July, 1985 from July, 1984

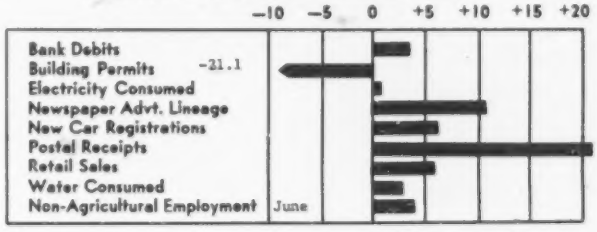
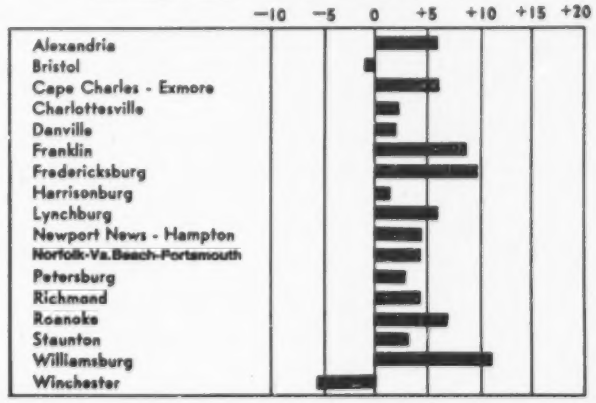


Chart II

City Indices

Percentage Change July, 1985 from July, 1984



SELECTED BUSINESS AND ECONOMIC INDICATORS FOR 17 CITIES

TABLE I July, 1985

Monthly Index Number Comparisons of Current Month to Same Month in Base Period (1977) = Base Period = 100

CITY	CITY INDEX *	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	June NON AGRI-CULTURAL EMPLOYMENT #	WATER CONSUMED	RETAIL SALES †	POSTAL RECEIPTS
The State		302.0	151.9	137.6	92.8	321.9	294.3	96.6	158.2	128.3
Alexandria	136.4	282.3	226.2	143.3	N.A.	123.4	166.1	114.0	136.1	N.A.
Bristol	131.1	29.8	56.6	82.6	72.6	103.7	108.0	86.1	144.3	294.2
Cape Charles - Exmore	132.9	63.0	475.6	130.2	N.A.	82.9	N.A.	N.A.	131.0	191.5
Charlottesville	168.3	149.3	260.3	121.9	N.A.	138.5	107.1	123.9	202.0	249.1
Danville	127.8	N.A.	160.4	112.0	N.A.	102.8	99.3	90.0	N.A.	234.9
Franklin	145.7	N.A.	1550.3	118.1	95.5	93.4	N.A.	94.5	121.1	254.9
Fredericksburg	215.3	680.4	209.4	N.A.	142.6	151.8	N.A.	66.6	194.8	561.9
Harrisonburg	144.9	236.3	424.7	N.A.	121.8	88.2	N.A.	136.4	128.6	282.0
Lynchburg	209.4	413.2	109.7	111.4	N.A.	115.2	97.0	133.4	176.5	688.6
Newport News - Hampton	125.3	142.7	144.7	123.9	83.6	105.6	129.1	127.9	144.0	N.A.
Norfolk - Va. Beach - Portsmouth	148.7	289.9	217.4	161.2	90.2	102.8		85.5	200.3	N.A.
Petersburg	242.3	107.9	79.7	N.A.	39.2	63.7	117.0	106.0	123.4	N.A.
Richmond	145.7	307.5	48.5	155.6	107.3	114.5		115.0	138.4	258.2
Roanoke	168.1	462.6	59.3	103.3	162.5	88.0	114.5	72.6	168.3	277.9
Staunton	123.8	129.0	63.3	N.A.	77.0	90.9	N.A.	N.A.	109.9	245.3
Williamsburg	157.6	176.0	163.6	173.4	N.A.	143.2	N.A.	133.0	113.9	312.0
Winchester	151.7	300.3	510.1	122.6	174.4	100.6	N.A.	111.1	N.A.	249.9

TABLE II July, 1985

Percentage Change from same month last year.

CITY	CITY INDEX *	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	June NON AGRI-CULTURAL EMPLOYMENT #	WATER CONSUMED	RETAIL SALES †	June RETAIL SALES ‡
The State		2.9	-21.1	0.6	10.1	6.1	3.6	2.8	5.7	7.1
Alexandria	5.5	8.8	-73.7	0.5	N.A.	-5.8	7.6	9.0	8.2	10.7
Bristol	-0.9	0.9	-38.5	-0.4	5.6	-0.5	5.0	-10.8	0.8	-8.0
Cape Charles - Exmore	6.0	-14.9	74.4	5.3	N.A.	-15.0	N.A.	13.6	19.1	0.2
Charlottesville	2.0	26.9	58.8	-3.6	N.A.	9.6	2.3	5.4	4.5	-8.4
Danville	2.1	N.A.	6.3	-3.8	N.A.	6.9	1.0	5.6	N.A.	0.9
Franklin	8.4	N.A.	4610.4	1.6	0.4	-24.0	N.A.	-15.3	4.5	88.4
Fredericksburg	9.4	6.2	73.6	N.A.	8.9	-5.5	N.A.	5.9	14.4	18.1
Harrisonburg	1.8	35.8	96.0	N.A.	16.5	-3.5	N.A.	10.0	-7.5	2.7
Lynchburg	5.8	53.5	8.4	-2.0	N.A.	9.6	0.3	5.8	9.0	9.1
Newport News - Hampton	4.8	-0.4	-35.1	-3.1	9.0	21.7	3.3	8.1	-5.5	10.7
Norfolk - Va. Beach - Portsmouth	4.1	2.4	-0.6	2.3	9.0	2.1		0.1	3.2	9.6
Petersburg	2.4	-0.5	-87.0	N.A.	-2.1	-26.7	1.6	10.4	17.5	-1.8
Richmond	4.2	-4.4	-59.4	2.9	0.4	-4.1		6.7	9.8	6.3
Roanoke	6.5	27.4	-73.5	0.9	28.4	5.3	5.0	-29.0	8.3	4.4
Staunton	2.7	2.6	38.6	N.A.	-7.0	-4.9	-4.9	N.A.	-4.7	7.9
Williamsburg	11.0	0.8	-35.6	-1.0	N.A.	26.1	N.A.	23.0	-2.1	22.2
Winchester	-5.3	29.3	920.7	-0.4	10.5	-20.6	N.A.	-8.3	N.A.	-7.9

TABLE III

Percentage Change January - July from same period last year

CITY	CITY INDEX *	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	Jan.-June NON AGRI-CULTURAL EMPLOYMENT #	WATER CONSUMED	RETAIL SALES †	Jan.-June RETAIL SALES ‡
The State		1.7	2.1	2.6	8.1	9.3	4.4	3.9	6.0	8.5
Alexandria	7.0	-4.5	12.6	3.2	N.A.	-1.7	8.8	8.4	8.3	13.4
Bristol	1.1	-7.4	38.0	-2.9	10.3	-5.9	4.1	4.8	-0.6	-0.3
Cape Charles - Exmore	4.7	-25.5	2.9	21.1	N.A.	-8.0	N.A.	5.1	1.7	6.3
Charlottesville	0.6	17.2	-56.6	0.9	N.A.	3.5	4.0	-0.7	2.2	-8.2
Danville	-1.6	N.A.	-52.8	-4.5	N.A.	-8.6	1.5	3.1	N.A.	0.6
Franklin	5.2	N.A.	704.9	0.3	1.5	-6.9	N.A.	-2.5	3.4	37.5
Fredericksburg	3.0	0.4	100.5	N.A.	7.6	2.2	N.A.	2.0	-4.4	15.0
Harrisonburg	5.2	16.7	53.3	N.A.	9.7	7.1	N.A.	5.0	1.8	5.7
Lynchburg	5.4	7.2	26.0	-1.5	N.A.	-1.4	1.0	3.6	16.1	3.9
Newport News - Hampton	7.5	-2.4	13.2	2.1	10.0	1.5	4.4	11.4	11.2	8.1
Norfolk - Va. Beach - Portsmouth	4.4	11.0	-4.4	3.2	11.7	0.7		-4.4	8.7	2.0
Petersburg	4.0	-7.2	-38.0	N.A.	-7.3	-13.2	2.0	3.4	18.4	6.4
Richmond	4.3	-3.2	41.0	3.0	4.4	-0.7		8.4	5.1	7.8
Roanoke	3.8	14.7	-20.0	1.5	8.5	3.3	5.1	4.1	3.0	2.0
Staunton	-0.8	10.4	143.0	N.A.	-2.0	0.9	N.A.	N.A.	-3.7	4.4
Williamsburg	10.4	-16.5	-22.1	20.7	N.A.	2.6	N.A.	8.0	3.4	24.0
Winchester	1.1	16.2	16.1	0.4	10.4	-2.1	N.A.	-3.1	N.A.	-0.2

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits and Bank Debits, which are excluded because of their highly erratic nature.

#Virginia Employment Commission data which lags behind current reports.

†Preliminary data based on a survey sample.

‡Revised data based on sales tax information which lags behind current reports.

⊏ Only total MSA data are available for these areas.

construction boom is ending. Demand for new houses remains high, a positive factor. However, the business and multi-family building demand is more questionable, in Virginia as well as nationally. The next two months will reveal whether sufficient overall demand exists to sustain construction growth through the remainder of 1985. **RLP**

First Quarter 1985 Income Growth

Our monthly indicators show current changes occurring in a variety of businesses and in nonagricultural employment. Those indicators so far in 1985 generally have revealed strong yet gradually slowing growth in Virginia. What has that growth meant in terms of the income received by Virginians? Income estimates are now available for at least part of 1985: the U.S. Department of Commerce released on August 1 their estimates for state personal income in the first quarter of 1985. It is informative as well as very encouraging to see how well they believe we fared, and how our growth compared to the rates for the region and the nation.

Table IV shows the first quarter's annualized rates of growth for total personal income and for payroll income in major sectors. (These growth rates are calculated by dividing the seasonally adjusted first quarter totals by those for the fourth quarter, raising that ratio to the fourth power to obtain the annualized growth factor, subtracting one, and then multiplying the results by one hundred to obtain an annualized growth rate stated in percentages.) These seasonally adjusted annual growth rates derived from the data for two consecutive quarters are quite sensitive to revisions in the data, so one must be wary of placing too much emphasis on these initially reported rates. Plus, the dollar amounts were not adjusted for inflation, which at the time was running at a 3.3 percent annual rate. Given these caveats, however, one still can take pride in what they reveal. The total personal income of Virginia residents grew in the first quarter at a 10.4 percent annual rate. By comparison, the growth rate in the Southeast Region was only 6.6 percent. This region, as defined by the Bureau of Economic Analysis in the Commerce Department, consists of 12 states: Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia. Nationwide, total personal income rose at a 6.1 percent annual rate, over 4 percentage points less than Virginia's growth. A somewhat more reliable measure is nonfarm personal income, also reported in Table IV. Here, Virginia's growth rate was 10.8 percent, compared to 7.8 percent for the Southeast and 7.0 nationwide. By either measure, total personal income or nonfarm personal income, Virginia's gain was exceptional. Just how exceptional comes to light in a state by state comparison. By both measures, Virginia's income growth rate in the first quarter of 1985 was the **third highest among all 50 states.** Only Arizona and New Hampshire achieved higher income growth.

As we discussed last month, personal income is all income received by individuals, before Federal and state income taxes. Its major component is wages and salaries, but it also includes rents, interest, dividends and proprietors' income as well as social security receipts and welfare payments. If you single out the payroll income in major sectors, you have indicators which more closely parallel the changes in the dollar value of the State's output of goods and services. Virginia's manufacturing payrolls grew at a 13.9 percent rate in the first quarter, close to three times the 4.9 percent rate for both the Southeast and the nation. Our growth rate ranked second to Mississippi in the Southeast, and sixth nationally.

The construction sector had the highest annual growth rate, 36.0 percent, almost twice the national rate in the construction industry. Many other states had surges in construction during the first quarter, so Virginia's growth rate ranked only fourteenth nationwide. However, construction payrolls in the Southeast generally grew at a slower rate than the national average. The result was Virginia ranked second, to Kentucky, among the 12 southeastern states.

Virginia's renewed activity in mining produced a 23.9 percent annual growth rate in mining payrolls during the first quarter, a gain second only to West Virginia within the Southeast and the fifth best nationally. This industry still has a depressed level of employment, but the relatively large increase in earnings in the first quarter is a favorable sign.

The private trade and services sector includes wholesale and retail trade; finance, insurance and real estate; transportation, communications, and public utilities; and other private services. Therefore it accounts for the major part of wage and salary income in Virginia. The total payroll growth rate in this sector was 10.0 percent compared to an 8.7 percent average in the Southeast and a national rate of 7.4 percent. This sector has been the State's strength in recent years, so the large base already achieved explains why the income growth rate was somewhat below that of the other sectors. Other states which had not realized comparable growth in prior periods had higher growth rates in the first quarter, so Virginia's rate ranked fourth in the Southeast and tenth in the nation.

The government sector includes the wages and salaries of all Federal civilian employees and military personnel as well as state and local employees. Virginia's annual growth rate in total government payroll (primarily Federal) was estimated to be 14.3 percent in the first quarter. Here again, we exceeded the 10.8 percent rate in the Southeast and 10.0 percent national average. The Commonwealth's growth rate was the sixth highest among all states and tied Florida's rate for first in the Southeast.

The review of payroll income growth by major sectors indicates how Virginia achieved the 10.4 percent annual rate for total personal income. A strong trade and service sector and a surge in construction, complemented by payroll and output gains in the weaker manufacturing and mining sectors, capped by above average government (mainly Federal) wage and salary growth. The breadth of the increases across sectors placed us third among all states. Virginia's growth rate is slowing, so we are not likely to maintain that high a ranking for the year. However, the year-over-year personal income gain in 1985 still is likely to exceed 8 percent, an outstanding accomplishment in itself as well as relative to the nation's performance. **RLP**

TABLE IV Seasonally Adjusted Annual Growth Rates for Virginia, The Southeast and the United States Based on Percent Changes, 1984:IV to 1985:I

	Virginia	The Southeast	United States
Total Personal Income	10.4%	6.6%	6.1%
Nonfarm Personal Income	10.8	7.8	7.0
Payroll Income In:			
Manufacturing	13.9	4.9	4.9
Construction	36.0	15.6	19.7
Mining	23.9	8.2	2.0
Private Trade and Services	10.0	8.7	7.4
All Government	14.3	10.8	10.0

The Virginia Business Report is published monthly except in December by the Bureau of Business Research. The publication is provided free of charge as a public service. For information call the Bureau at (804) 253-4493.

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WILLIAMSBURG, VIRGINIA 23185

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U1120-1A

VIRGINIA BUSINESS REPORT

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 303 September, 1985

Business in Virginia August, 1985 Data

All of the economic indicators show gains this month, for the first time since the May issue's report on April's performance. That in itself is very favorable evidence of the continued economic strength of the Commonwealth. Particularly encouraging is the return of building permits to the plus column, a 6.6 percent increase in August. Construction employment has been at record levels recently, and the renewed growth in building permits offers a tentative sign that the construction industry will maintain high activity this fall. Another hopeful signal was the advance in growth rates for both electricity and water consumption. Weather of course plays a role here. But such a move in both indicators usually accompanies an increase in manufacturing output. Manufacturing has been a weak performer so far this year, but if factory output is accelerating then manufacturing employment gains will follow soon.

The other indicators reveal that the Commonwealth's major strengths are not deteriorating. The July nonagricultural employment compared to July 1984 rose 3.5 percent, only very slightly below the June growth of 3.6 percent. The gradual slowing of the employment growth rate appears to have ended, leveling off at a very healthy rate. That pace for the remainder of the year will give the State about a 4 percent annual gain in nonagricultural employment, well above the national average.

Retail trade generally showed improvement also. New car registrations were up 8.5 percent in August compared to 6.1 percent in July. Current dealer incentive offers are likely to produce another gain in new car registrations in September. The July taxable sales reports now available confirm last month's preliminary evidence that July was a very good month for retailers. Taxable sales rose 8.5 percent, more than double the national July-to-July growth of 4.2 percent in a fairly comparable measure, retail trade excluding the automotive group. Virginia's July gain also held the cumulative January-August advances in taxable retail sales at an 8.5 percent rate. Our own August sample of a set of Virginia retailers reported a 3.9 percent increase. Slightly below the July gain, with high variability across geographic areas as well as some large month to month variations by area, so nondurable goods demand still apparently is not consistently strong across all types of goods. However, the Statewide sample growth does imply that Virginia's overall taxable sales in August again grew at a higher rate than at the national level. Therefore the Statewide business and economic indicators are almost totally good news this month.

Among the eight Metropolitan Statistical Areas (MSAs) in the State, only two had gains in all of our indicators: the Norfolk-Virginia Beach-Newport News MSA (shown as two entries in the tables) and the Virginia portion of the Johnson City MSA, reported as the Bristol area. For the former, this is continuing evidence of the balanced growth which has been the key attribute of the Hampton Roads area for over a year. For the latter, August is the first month since January in which Bristol has shown across-the-board gains, hopefully a signal of higher growth to follow.

Only one of the other areas we survey achieved increases in all of the indicators: the Fredericksburg area. It has maintained a very balanced pattern of growth over time. In any one month there sometimes have been one or two negatives, a natural result since monthly series are much more volatile than quarterly values. However, the occasional weaknesses have repeatedly reversed themselves very quickly, yielding highly consistent growth over spans of two or three months. The casual reader may review some of their present growth rates and think they are not exceptional. As percentages, such as the 3.4 percent taxable sales advance in July, that is correct. However, bear in mind the base to which the

Chart I

Nine Selected Business & Economic Indicators Percentage Change

Percentage Change August, 1985 from August, 1984

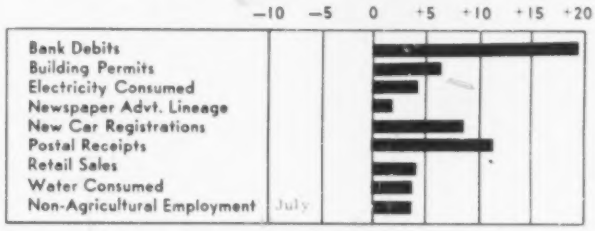
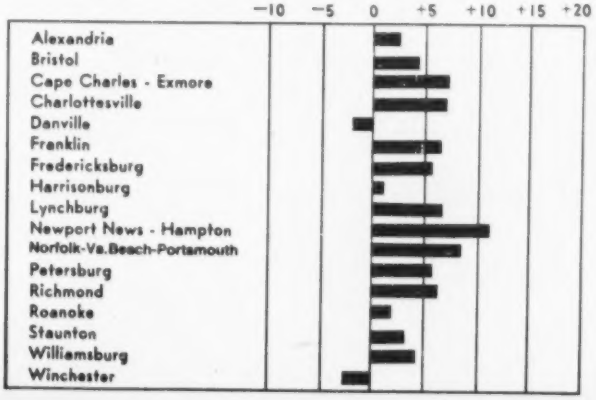


Chart II

City Indices

Percentage Change August, 1985 from August, 1984



SELECTED BUSINESS AND ECONOMIC INDICATORS FOR 17 CITIES

TABLE I — Monthly Index Number Comparisons of Current Month to Same Month in Base Period (1977) - Base Period = 100

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	July NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	POSTAL RECEIPTS
The State		323.7	187.2	144.1	107.9	245.1	126.6	97.8	146.5	282.1
Alexandria	156.0	255.9	220.7	157.8	N.A.	156.1	166.7	118.9	164.2	N.A.
Bristol	139.0	33.3	185.1	88.1	81.2	110.1	105.1	103.6	147.9	319.5
Cape Charles - Exmore	131.2	69.6	263.0	130.8	N.A.	114.6	N.A.	N.A.	118.4	186.3
Charlottesville	171.1	155.2	377.1	125.9	N.A.	136.5	98.6	113.6	207.8	270.5
Danville	118.7	N.A.	91.0	110.8	117.2	96.2	97.0	86.1	N.A.	205.0
Franklin	139.0	N.A.	96.4	124.6	114.7	121.3	N.A.	102.4	139.8	229.7
Fredericksburg	257.2	695.8	760.5	N.A.	156.2	208.0	N.A.	67.9	218.0	714.2
Harrisonburg	107.8	234.3	956.4	N.A.	136.3	111.3	N.A.	125.4	140.4	241.3
Lynchburg	188.5	454.9	171.5	117.4	N.A.	119.5	95.3	118.3	171.8	542.0
Newport News - Hampton	143.8	N.A.	288.1	134.4	95.0	130.0	128.1	128.9	177.9	N.A.
Norfolk - Va. Beach - Portsmouth	152.6	294.5	297.0	163.2	101.1	139.7		91.0	199.1	N.A.
Petersburg	115.7	107.9	142.4	N.A.	40.0	80.5	116.7	98.9	123.9	218.0
Richmond	140.9	341.1	88.2	157.6	120.9	126.0		112.8	127.9	250.8
Roanoke	144.5	572.4	32.2	105.4	159.8	104.0	114.6	73.0	156.1	275.3
Staunton	105.9	116.5	9.6	N.A.	72.5	93.0	N.A.	N.A.	121.4	N.A.
Williamsburg	158.3	184.2	146.3	177.8	N.A.	148.3	N.A.	133.6	125.4	272.3
Winchester	166.0	272.9	89.0	120.4	192.2	130.2	N.A.	120.0	N.A.	267.5

TABLE II — August, 1985 — Percentage Change from same month last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	July NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	July RETAIL SALES ‡
The State		19.3	6.6	4.3	1.6	8.5	3.5	3.4	3.9	8.5
Alexandria	2.6	12.3	-25.1	9.6	N.A.	8.0	8.7	17.4	-12.7	15.0
Bristol	3.8	29.8	222.0	2.5	7.0	1.0	4.0	5.5	1.9	8.8
Cape Charles - Exmore	7.0	-33.0	-56.0	2.3	N.A.	12.0	N.A.	19.1	2.4	8.7
Charlottesville	6.7	50.0	-62.4	1.2	N.A.	6.4	-1.0	12.0	13.0	-4.4
Danville	-2.6	N.A.	334.0	-7.5	-11.0	-0.7	1.0	-0.3	N.A.	3.1
Franklin	6.3	N.A.	146.4	5.0	7.3	-5.1	N.A.	0.6	3.6	31.6
Fredericksburg	5.2	15.9	96.0	N.A.	8.2	17.0	N.A.	4.4	1.0	3.6
Harrisonburg	0.2	23.0	95.8	N.A.	8.3	-0.5	N.A.	3.2	-4.7	3.9
Lynchburg	6.5	31.6	-15.1	1.0	N.A.	6.5	0.3	-1.0	13.8	3.4
Newport News - Hampton	11.2	N.A.	35.3	8.5	5.2	15.4	3.0	8.1	17.8	7.5
Norfolk - Va. Beach - Portsmouth	8.0	0.7	20.2	2.0	6.0	16.4		5.8	10.5	7.2
Petersburg	5.4	-3.4	36.0	N.A.	-35.4	-10.4	2.5	4.0	24.8	8.4
Richmond	6.2	20.0	-44.0	1.2	3.2	3.6		2.0	10.6	11.8
Roanoke	2.0	46.0	-61.0	2.7	0.4	5.1	4.6	-28.4	6.2	14.7
Staunton	3.1	0.9	-98.6	N.A.	-7.0	6.2	N.A.	N.A.	4.2	6.5
Williamsburg	4.4	7.7	9.8	5.6	N.A.	1.2	N.A.	16.1	-0.6	9.5
Winchester	-2.7	13.5	4.2	-1.0	0.1	2.3	N.A.	-3.2	N.A.	-11.9

TABLE III — Percentage Change January - August from same period last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	Jan.-July NON AGRI-CULTURAL EMPLOYMENT#	WATER CONSUMED	RETAIL SALES †	Jan.-July RETAIL SALES
The State		3.7	12.0	2.9	6.9	8.1	4.3	3.0	5.7	8.5
Alexandria	6.5	-2.6	9.5	4.1	N.A.	-0.3	8.9	10.0	5.1	13.6
Bristol	1.3	-3.7	53.0	-2.3	9.9	-4.9	3.9	5.0	-0.3	1.1
Cape Charles - Exmore	4.6	-26.6	-91.1	18.1	N.A.	-5.2	N.A.	6.9	1.8	6.7
Charlottesville	1.5	19.1	-49.0	1.0	N.A.	3.9	3.3	1.0	3.5	-7.7
Danville	0.0	N.A.	-54.0	-5.0	7.2	-7.7	1.5	3.0	N.A.	1.0
Franklin	5.2	N.A.	680.1	1.0	2.2	-6.6	N.A.	-2.1	3.4	36.7
Fredericksburg	2.5	5.7	110.8	N.A.	8.0	4.2	N.A.	2.3	-3.5	13.2
Harrisonburg	2.6	18.2	61.5	N.A.	-0.7	6.0	N.A.	5.0	0.9	5.4
Lynchburg	6.7	10.4	19.2	-1.2	N.A.	-0.4	0.9	3.0	15.8	3.9
Newport News - Hampton	8.4	N.A.	16.0	3.0	9.3	3.5	4.2	11.0	12.1	8.0
Norfolk - Va. Beach - Portsmouth	6.1	8.8	-1.1	3.0	11.0	2.9		-3.0	9.0	9.7
Petersburg	8.9	-6.7	-33.0	N.A.	-12.1	12.8	2.2	3.5	19.3	6.7
Richmond	4.8	-0.5	30.0	3.0	4.2	-0.2		3.0	5.8	8.4
Roanoke	2.3	18.5	-18.0	2.0	7.4	3.6	5.2	-12.8	3.4	4.0
Staunton	-0.8	9.1	-7.5	N.A.	-3.0	1.6	N.A.	N.A.	-2.7	4.7
Williamsburg	8.6	13.6	-20.6	19.0	N.A.	2.4	N.A.	9.0	2.8	21.1
Winchester	0.3	15.8	138.0	0.2	8.9	-2.1	N.A.	-3.1	N.A.	-2.2

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits and Bank Debits, which are excluded because of their highly erratic nature.
#Virginia Employment Commission data which lags behind current reports.
†Preliminary data based on a survey sample.
‡Revised data based on sales tax information which lags behind current reports.
⊐ Only total MSA data are available for these areas

percentages apply. In 1984, Fredericksburg had the highest growth rates of all the seventeen areas in taxable sales and new car registrations. Given that base, the January-July 1985 cumulative increase of 13.2 percent in taxable sales is outstanding, and even the cumulative new car registration gain of only 4.2 percent takes on a different perspective. Likewise, the cumulative City Index rise of "only" 2.5 percent represents the improvement from the highest 1984 base level among all localities. Fredericksburg remains a leader, as shown dramatically by reviewing the level of the City Index and most other indices in Table I.

A postscript on the national performance versus that of Virginia is appropriate. On September 20, the Department of Commerce released its "flash" prediction that real Gross National Product grew at an annual rate of 2.8 percent in the third quarter. If that prediction proves to be correct, real growth of 3 percent or better for the year is virtually impossible, and even a 2.5 percent gain requires much stronger fourth quarter growth. However, the Administration cheered the report as good news; and it also considered very hopeful the August retail sales and employment gains accompanied by the drop in unemployment to 7.0 percent. At the national level those reports were good news, in the sense they at least were better news than earlier results. Contrast that with Virginia's situation. If this month's Virginia Business Report had shown August growth rates for Virginia which were the same size as the national rates, that would have been very depressing news. It would have meant a slowdown here ranging from 30 to 50 percent across our indicators, signaling the impending end of Virginia's expansion. The current Virginia growth rates, which we repeatedly have referred to as "more moderate but strong" compared to Virginia's earlier experience and which most Virginians consider unexceptional, are growth rates which would be described with superlatives such as spectacular or even miraculous if they were achieved at the national level. RLP

Future Federal Deficits – How Large?

Reports on the probable size of future Federal deficits were snuffed from the headlines soon after the Congress adopted the concurrent resolution on August first calling for legislative action to reduce the fiscal year 1986 (FY1986) deficit by $55 billion and the 1986-1988 deficits by a total of $276 billion. However, the resolution set September 27 as the date when the various committees would submit the recommended legislation to the House and Senate Budget Committees, who then must mold the final package for consideration by the Congress. The budget deficits have been like a house fire, threatening to get totally out of control and reduce our economic expansion to a smoldering ruin. So far Congress has only expressed their intentions to contain the blaze. Beginning next week we shall see whether or not they will in fact take effective action. All of you have heard and read countless times that such action has become critical. This month we are providing you with a current assessment of the probable future deficits under two scenarios, one optimistic and one pessimistic, so you can judge the seriousness of the situation for yourself. The estimates were prepared in August by the Congressional Budget Office (CBO), whose responsibility under law is to provide Congress with objective analysis of the economic effects of their actions. Both scenerios assume the August 1 current resolution's budget targets are fully implemented in the forthcoming legislation.

The actual deficits depend upon the level of economic activity in the nation, so the two scenarios represent the estimated results under alternative projections of future growth. The two sets of national growth rate projections are not forecasts — they are intended for illustration only. Consider therefore which path you think is likely to be closest to the economy's actual course.

Table IV shows the projected current dollar Gross National Product (GNP), the real (inflation-adjusted) growth rates for GNP, and the estimated deficits for the rest of the decade under the two growth paths. The path labelled "CBO economic assumptions" is what we will refer to as the optimistic outlook. Their assumptions are steady growth in real GNP of approximately 3.5 percent per year through 1990. If that does occur, the nation will have experienced a 97 month expansion, from November 1982 through December 1990, with average real growth slightly above the historical trend. The National Bureau of Economic Research is the organization which dates our business cycles and has identified the nation's cyclical movements back to 1854. From 1854 to the present, there has been one expansion which lasted 80 months, the period from June 1938 through February 1945, encompassing World War II. Only one expansion had a longer life, the 106 month expansion from February 1961 through December 1969, including the Vietnam War. The longest peacetime expansion was 50 months, in the mid-1930's. The average of all 25 peacetime expansion periods was 27 months; and the average length for the 6 post-World War II expansions has been 34 months. September 1985 coincidentally is the thirty-fourth month of the current expansion. Historical experience does not provide very favorable odds for continued real growth for another 63 months. The current manufacturing, foreign trade, and farm credit situations also do not instill confidence that we are poised to achieve the longest peacetime economic expansion on record. Therefore we consider the CBO assumptions to be an optimistic outlook. Given those assumptions, and with full implementation of the August 1 Congressional resolution, the level of the Federal deficit is expected to be reduced to $175 billion in FY1986, and then decline to $120 billion in FY1990. As a percent of GNP, the deficit would decrease steadily to 2.1 percent in FY1990. However, the deficit of $120 billion in fiscal year 1990 still would be an estimated 8.8 percent of total Federal expenditures. Plus, the Federal debt would be $733 billion higher than it is today.

Now to the pessimistic scenario, illistrated by the Congressional Budget Office estimates for their "low growth alternative." This alternative postulates a recession beginning in mid-1986 and lasting 16 months. Such an event would add almost $100 billion to the FY1987 deficit, and over $100 billion to the deficit in each subsequent year for the rest of the decade. Deficits of over $250 billion each year, running over 5 percent of the nation's GNP, even after three years of recovery, 1988-1990; and a Federal debt increase of $1,239 billion compared to the present level. If you do not expect a recession in 1986, you can get a rough idea of the impact of a 1987 or 1988 recession by shifting the estimated impacts forward in time. The scenario shown, as stated above, is for illustration only. What it does illustrate dramatically is that a deviation of real GNP of 6-6.5 percentage points, from a positive growth rate of 3.4 percent to a decline of 3.0 percent, in any one of the next five years is likely to double the Federal deficit by the following year. In addition, the higher deficit levels can be expected to continue during the ensuing recovery and expansion. The possibility of a future recession means the Federal deficit will remain a threat, ready to explode to unprecedented levels, even if Congress achieves its stated budget goals in the coming weeks. If Congress fails, then our pessimistic illustration is very likely to become the optimistic one of the future. RLP

TABLE IV THE BUDGET OUTLOOK UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS

Part A. ALTERNATIVE ECONOMIC ASSUMPTIONS BY CALENDAR YEAR

	1985	1986	1987	1988	1989	1990
GNP (billions of current dollars)						
CBO economic assumptions	3906	4217	4548	4905	5289	5704
Low-growth alternative	3902	4135	4144	4409	4691	4975
Real GNP (percent change, year over year)						
CBO economic assumptions	2.6	3.6	3.4	3.5	3.5	3.5
Low-growth alternative	2.5	1.8	-3.0	3.6	3.9	3.7

Part B. BUDGET DEFICIT OUTLOOK BY FISCAL YEAR

	CBO Projections			CBO Extrapolation	
	1986	1987	1988	1989	1990
In Billions of Dollars					
Deficit (-) or Surplus under:					
CBO economic assumptions	-175	-163	-143	-132	-120
Low-growth alternative	-200	-259	-272	-256	-252
As Percent of GNP					
Deficit (-) or Surplus Under:					
CBO economic assumptions	-4.2	-3.7	-3.0	-2.5	-2.1
Low-growth alternative	-4.9	-6.3	-6.3	-5.5	-5.1

SOURCE: Congressional Budget Office

The Virginia Business Report is published monthly except in December by the Bureau of Business Research. The publication is provided free of charge as a public service. For information call the Bureau at (804) 253-4493.

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